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NONAPPROPRIATED FUND CONSTRUCTION

ORIGINAL

HEARINGS

BEFORE THE

MORALE, WELFARE AND RECREATION (MWR) PANEL

OF THE

READINESS SUBCOMMITTEE

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES
NINETY-NINTH CONGRESS
FIRST SESSION

OCTOBER 3, 17, AND 22, 1985

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NONAPPROPRIATED FUND CONSTRUCTION

House of Representatives, Committee on Armed Services, Morale, Welfare and Recreation Panel of the Readiness Subcommittee,
Washington, DC, Thursday, October 3, 1985.

The panel met, pursuant to notice, at 9:45 a.m., in room 2212, Rayburn House Office Building, Hon. Dan Daniel (chairman of the panel) presiding.

OPENING STATEMENT OF HON. DAN DANIEL, A REPRESENTATIVE FROM VIRGINIA, CHAIRMAN, READINESS SUBCOMMITTEE AND MORALE, WELFARE AND RECREATION [MWR] PANEL

Mr. **Daniel**. The panel will come to order.

This morning, the panel begins hearings on nonappropriated fund construction, those facilities that are constructed with moneys paid for by service members rather than the taxpayer.

These facilities contribute to the morale, welfare, and recreation of military personnel and include exchanges, commissaries, clubs, bowling alleys, youth centers, golf courses, and other similar facilities.

The nonappropriated fund construction program has grown extensively during the last few years. The 1986 program submitted by the services is almost one-half billion dollars, five times the size of the 1980 program.

In October 1979, the panel held hearings on the military clubs and package beverage stores. In its report on these hearings, the panel stressed the belief that military personnel stationed overseas should not suffer additional hardships because of inadequate or unattractive facilities, and should enjoy the same quality of life as their counterparts stationed here in the United States. The panel believed then, as it does now, that the services should strive to see that the quality of life for military personnel stationed overseas and at remote sites meet U.S. standards.

In 1980, the General Accounting Office, at the request of this panel, reviewed nonappropriated fund construction. The GAO reported that although the Department of Defense had a backlog in the billions of dollars for morale, welfare and recreation projects, facilities constructed were larger than needed, not adequately justified or planned, or would be used primarily by persons not on active duty.

GAO recommended that the Secretary of Defense direct each of the military services to strengthen headquarters management, require the major commands to validate project requests to fulfill actual needs, and require command officials to document the justification of proposed projects.

Defense Department officials agreed with GAO that there was a need for improved long-term project planning, increased central guidance, and a more realistic construction criteria. The Department also agreed that there was a need for more central funding of construction projects.

The panel has reviewed the nonappropriated fund construction programs for the last 4 years. It has made recommendations and deferred a number of projects in the interests of improving the management of these programs.

For their part, the services have made substantial management changes. Five-year plans have been developed and the backlog of needed projects updated. Surveys have been conducted to identify those programs most desired by military personnel. Nevertheless, much needs to be done.

The panel is interested in determining whether weaknesses identified in the past have been corrected and corrective actions implemented. We also want to review the current state of construction funding policy.

The Department has established guidelines identifying the types of facilities that should be built with appropriated funds and those which should be constructed with nonappropriated funds. A number of our congressional bodies have taken exception to this policy. In fact, many projects are being deferred with the sole justification of build it with nonappropriated funds.

We hope to be able to explore this issue today and get the Department's views on what is happening. Finally, the panel wants to learn the methods used by the services to develop their programs and the role of the Office of the Secretary of Defense in reviewing these programs we will also examine some of the projects the services want to build next year.

In summary, we want to determine how effectively the dollars belonging to our service members are being spent.

Mr. Whitehurst doing his constructive job on the panel as usual I would like very much to hear from you at this time.

STATMENT OF HON. G. WILLIAM WHITEHURST, A REPRESENTATIVE FROM VIRGINIA, RANKING MINORITY MEMBER, MORALE, WELFARE AND RECREATION PANEL OF THE READINESS SUBCOMMITTEE

Mr. Whitehurst. Thank you, Mr. Chairman. I do have a few comments.

In my view, this is an appropriate time to conduct a hearing on nonappropriated fund construction. Although the 1986 construction program totals almost $500 million, the backlog of needed facilities is 10 times that amount, over $5 billion.

Under these circumstances, you would think the services would build austere facilities in a timely fashion. I understand, however, that the services have submitted requests for projects that are very costly, such as commissaries for $12 and $16 million each. Also, some facilities are taking 4 and 5 years to build.

Some changes should be made. These facilities are not unusual in any respect. They are similar to the bowling alleys, grocery stores and recreation centers built in the civilian community.

It is my view that the panel should not approve the construction of recreation facilities, such as a bowling alley, or golf course, unless it is demonstrated that they will be economically viable.

On most installations, there are large numbers of military personnel eager to participate in such activities. These operations should be profitable unless patron demand is not there. If these operations cannot be operated on a self-sufficient basis the panel should not approve of them unless they are at remote or isolated locations.

One final observation, Mr. Chairman. I fully support the panel's desire to improve the quality of life for our service personnel stationed overseas. Most people would agree that the morale, welfare and recreation needs of overseas personnel should have a higher priority than those in the United States.

For the most part, service members in the United States have access to a larger number and better facilities than those at overseas locations. To their credit, the services have recognized this and have shifted a greater percentage of their nonappropriated fund construction to the overseas areas.

In 1983, 27 percent of the construction program dollars were spent overseas. This year, the amount is about 40 percent. A considerable improvement and a trend we want to continue and encourage.

So, I thank you, Mr. Chairman, and I look forward to hearing the testimony that addresses these issues.

Mr. Daniel. Before we commence this morning, I ask unanimous consent to include in the record a summary of the fiscal year 1986 programs that are being requested. Without objection, so ordered.

[The following information was received for the record:]

1986 NAF CONSTRUCTION REQUEST

[in Thousands of Dollars]

I. UNITED STATES

State	Installation/ Project	Estimated Cost
ALABAMA	Ft. Rucker, Guest House	2,400
ALASKA	Ft. Wainwright, Youth Activity Center	3,200
ARIZONA	Ft. Huachuca, Outdoor Recreation Equipment Center	940
	Skill Development/Auto Craft Center	1,450
	Youth Outdoor Sports Complex	1,350
	Williams AFB, Convenience Store	630
	Davis-Monthan AFB, Youth Center	1,200
CALIFORNIA	NAS North Island, San Diego, Golf Clubhouse	1,400
	NAVSTA San Diego, Commissary Store	6,900
	MCRD San Diego, Exchange Warehouse	2,000
	MCB Camp Pendleton, Main Exchange Store	2,000
	Playing Courts	554 *
	Handball Courts	800
	Auto Service Center Addition	1,098
	MCAS Tustin, Exchange Renovation	574
	SNCO Club	1,200
	MCAGCC Twenty-nine Palms, Commissary Addition	3,200
	Branch Exchange Facility	2,010
	Mather AFB, Convenience Store	710

* Authorized in Prior Year

State	Installation/ Project	Estimated Cost
CALIFORNIA	Ft. Irwin, Officer's Club/NCO Club w/Class VI Store	3,500
	Commissary Expansion	4,800
	Branch Exchange	670
	Ft. Ord, Skill Development/Auto Craft Center	2,550
	Guest House	1,700
	Presidio of S.F., Commissary	8,200 *
	Bowling Center Addition	2,200
	Expand Shopping Center	4,050
	Branch Exchange	510
	Castle AFB, Commissary Warehouse Addition	1,200
	Norton AFB, Commissary Store	8,700 *
COLORADO	Ft. Carson, Outdoor Recreation Facility	3,700
	Peterson AFB, Shopping Center Expansion	2,300
	Commissary Addition	2,950 *
CONNECTICUT	Sub Base, New London, Indoor Playing Courts	960
FLORIDA	NAS Jacksonville, Navy Exchange Complex	5,900
	NAS Whiting Field, Exchange Retail Store	1,600
	MacDill AFB, Merchandise Processing Area Expansion	510
	Patrick AFB, Athletic Field Complex	560
	Tyndall AFB, Marina Building and Covered Boat Storage	660

* Authorized in Prior Year

State	Installation/ Project	Estimated Cost
GEORGIA	NAS Altanta, Racquetball Court Complex	660
	Ft. Stewart, Skill Development/ Auto Craft Center	2,050
	Dobbins AFB, Shopping Center	1,800
HAWAII	NAS Barbers Point, Arts and Crafts Hobby Shop	1,700
	Schofield Barracks, Bowling Center Addition	1,800
	Youth Activity Center	3,650
	Hickam AFB, Branch Exchange Expansion	1,200
	Youth Center	1,850
ILLINOIS	Ft. Sheridan, Shopping Center	2,850
KANSAS	Ft. Leavenworth, Officers' Club Addition	880
	Ft. Riley, Bowling Center Addition	2,250
KENTUCKY	Ft. Knox, NCO Club	1,300
	Skill Development/Auto Craft Center	2,000
	Branch Exchange (Gas)	690
	Lexington-Blue Grass Dep Act, Commissary Renovation	750
LOUISIANA	Ft. Polk, Guest House	3,200
MAINE	Bangor International Airport, Commissary Store	1,700
MARYLAND	Aberdeen Proving Ground, Branch Exchange (Gas)	610
	Ft. Detrick, Guest House	750
	Bowling and Skill Development Center	1,700
	Ft. Ritchie, Bowling Center Addition	1,050
	Andrews AFB, Commissary Addition	2,650 *

* Authorized in Prior Year

State	Installation/ Project	Estimated Cost
MASSACHUSETTS	Ft. Devens, Guest House	3,000
MINNESOTA	Twin Cities AFS, Shopping Center	1,970
	Minneapolis-St. Paul International Airport, Multipurpose Physical Fitness Center	610
MISSISSIPPI	NAV Construction Battalion Center, Navy Lodge	723
	Keesler AFB, Main Exchange Expansion	1,750
MISSOURI	Ft. Leonard Wood, Branch Exchange	770
NEVADA	Nellis AFB, Commissary Addition	4,200 *
NEW JERSEY	Ft. Dix, Skill Development Center	2,350
NEW MEXICO	Kirtland AFB, Shopping Center Expansion	3,000
NEW YORK	Ft. Drum, Commissary	7,700
	Shopping Center	7,300
	Seneca Army Depot, Skill Development Center	510
NO. CAROLINA	MCB Camp Lejeune, Exchange Building	1,197
	E/Club	1,800 *
	Ft. Bragg, Branch Exchange	560
OKLAHOMA	Ft. Sill, Officers' Family Health Club	2,500
	Guest House	3,150
	NCO Family Health Club	2,050
PENNSYLVANIA	Carlisle Barracks, Commissary Warehouse	1,150
	New Cumberland Army Depot, Consolidated Club	2,150

* Authorized in Prior Year

State	Installation/ Project	Estimated Cost
SO. CAROLINA	Ft. Jackson, Class VI Store and Consol. MWR Warehouse	1,100
	Youth Activity Center	1,950
	Branch Exchange	830
TEXAS	NAS Corpus Christi, Enlisted Club	1,135 *
	NAS Dallas, Bowling Alley and Amusement Center	950
	NAS Kingsville, Navy Exchange	1,400
	Ft. Bliss, Sports Field Complex	1,050
	Class VI Store & Consol. MWR Warehouse	1,150
	Bergstrom AFB, Shopping Center Expansion	2,200
	Commissary Addition	3,800 *
	Carswell AFB, Main Exchange Expansion	1,800
	Bowling Center Addition	1,150
	Randolph AFB, Main Exchange Expansion	1,800
	Goodfellow AFB, Automotive Skill Development Center	780
	Dyess AFB, Commissary Warehouse Addition	1,450 *
UTAH	Hill AFB, Shopping Center Expansion	2,400
VIRGINIA	NAVSTA Norfolk, Navy Lodge Addition	7,400
	Commissary Store	5,700
	NAS Oceana, Virginia Beach, Commissary Addition	3,200
	Golf Clubhouse	870
	Norfolk Naval Shipyard, Portsmouth, Navy Exchange	2,900
	Fleet Combat Training Center, Dam Neck, Consolidated Enlisted Mess	3,100 *

* Authorized in Prior Year

1986 NAF CONSTRUCTION REQUEST

[In Thousands of Dollars]

II. OVERSEAS

State	Installation/ Project	Estimated Cost
AZORES	Lajes Field, Commissary Store	8,500
	Temporary Lodging Facility	1,350 *
BERMUDA	NAS, Exchange Convenience Store	500
	Enlisted Mess	1,200
GERMANY	Stuttgart-Patch, Commissary	4,450
	Mainz, Bowling Center	2,600
	Kitzingen, Bowling Center	3,200
	Friedberg, Bowling Center	1,200
	Goeppingen, Recreation Facility	2,750
	Bindlach, Bowling Center	1,450
	Darmstadt, Bowling Center	2,600
	Vilseck, Outdoor Rec Complex	1,750
	Frankfurt, Guest House	1,800
	Hausberg AFRC, Ski Center	2,300
	Stutt-Robin Bks, Commissary/Warehouse	6,000
	Dexheim, Main Exchange Expansion	1,800
	Schweinfurt, Main Exchange Expansion	2,550
	Mannheim, Audio/Photo Center	1,300
	Fuerth, Shopping Center Expansion	9,100 *
	Worms, Community Park	600
	McPheeters, Bowling Center	900
	Garlstedt, Sports Complex	770
	Dexheim, Youth Center	660

* Authorized in Prior Year

State	Installation/ Project	Estimated Cost
VIRGINIA	Ft. Eustis, Officers' Club Renovation/Addition	1,350
	Ft. Lee, Class VI Store & Consol. MWR Warehouse	1,400
	Bowling Center Renovation	670
	Ft. Monroe, Bowling Center Renovation	730
	Ft. Myer, Bowling Center	2,750
	Ft. Story, Bowling Center	1,150
	Newport News, East Coast Distribution Center	40,000
WASHINGTON	Fairchild AFB, Convenience Store	650
	Shopping Center	5,100
	McChord AFB, NCO Open Mess Addition	820
WYOMING	F.E. Warren AFB, Commissary Store	4,200 *

* Authorized in Prior Year

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State	Installation/ Project	Estimated Cost
GERMANY	Ramstein AB, Shopping Center Expansion	1,000
	Officers Open Mess Addition	3,000
	Rhein-Main AB, Arts and Crafts Skill Development Center	1,100
	Sembach AB, Automotive Skill Development Center	800
	NCO Open Mess Addition	1,300
GUAM	Andersen AFB, Arts and Crafts Skill Development Center	1,500
	Temporary Lodging Facility	3,350
ITALY	Vincenza, Outdoor Equipment Center	600
	Aviano AB, Main Exchange Addition	740
JAPAN	MCAS Iwakuni, Existing E/Club Addition	1,000
	Kadena AB, Four Seasons/Toyland Store	2,600
	Misawa AB, Bowling Center	4,100
	MCB Camp Fuji, Handball Courts	500 *
KOREA	Camp Red Cloud, Bowling Center	1,200
	Main Exchange	1,800
	Hialeah Compound, Youth Activity Center	650
	Camp Market, Multi-purpose Recreation Field	620
	Camp Stanley, Unit Entertainment Center	750
	Camp Stanton, Multi-purpose Recreation Field	610
	Camp Howze, Bowling Center	900
	Camp Casey, Bowling Center Expansion	1,100
	Multi-purpose Recreation Fields/Track	1,000

State	Installation/ Project	Estimated Cost
KOREA	Camp Hovey, Bowling Center	1,000
	Camp Walker, Recreational Billeting	800
	Camp Greaves, Bowling Center	1,100
	Camp Yongsan, Commissary	11,400
	Car Care Center	1,700
OKINAWA	MCB Camp Hansen, E/Club Addition	1,000 *
	MCB Futenma, Enlisted Club Addition	1,440 *
	MCB Camp Courtney, SNCO Club Addition	600 *
	Bowling Center	1,800 *
	Camp Kinser, Cold Storage Depot	1,700
	MCB Camp Schwab, Enlisted Club Add.	760 *
PANAMA CANAL ZONE	Ft. Clayton, Youth Activity Ballfield	500
PHILIPPINES	Clark AB, Softball Field Complex	730
SPAIN	Zaragoza AB, Commissary Store	1,750 *
UNITED KINGDOM	Naval Activities, London, Youth Center	570
	RAF Bentwaters, Shopping Center Expansion	3,900
	Open Mess Addition	2,200
	RAF Alconbury, Youth Center	1,150
	Commissary Store	8,100 *
	RAF Lakenheath, Automotive Skill Development Center	1,050
	RAF Heyford, Temporary Lodging Facility	1,900

* Authorized in Prior Year

1986 NAF CONSTRUCTION REQUEST

[in Thousands of Dollars]

III. FAST FOOD FACILITIES

Service	State	Installation/ Project	Estimated Cost
ARMY	GERMANY	Bad Krueznach	28,400
		Bamberg (Wagner Kas)	
		Baumholder	
		Bremerhaven	
		Darmstadt (Fritsch Kas)	
		Giessen	
		Heidelberg	
		Hohenfels	
		Karlsruhe	
		Mannheim (Coleman Bks)	
		Nuernberg (Erlangen)	
		Nuernberg (Fuerth)	
		Pirmasens	
		Schweinfurt (Conn Bks)	
		Schweinfurt (Daley Kas)	
		Stuttgart (Panzer Kas)	
		Stuttgart (Patch Bks)	
		Stuttgart (Robinson Bks)	
		Vilseck	
		Wildflecken	
		Worms	
		Wuerzburg (Leighton Kas)	

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Service	State	Installation/ Project	Estimated Cost
ARMY	GERMANY	Zweibrucken	
		Garmish	
		Berlin	
	PACIFIC	Camp Howze, Korea	
		Camp Red Cloud, Korea	
		Camp Stanley, Korea	
		Aliamanu, Hawaii	
	CONUS	Ft. Dix, NJ	
		Ft. Eustis, VA	
		Ft. Ben Harrison, IN	
		Ft. Sam Houston, TX	
		Ft. Jackson, SC	
		Ft. Leavenworth, KS	
		Ft. Lee, VA	
		Ft. Meade, MD	
		Ft. Riley, KS	
		Presidio of Monterey, CA	
		Presidio of San Francisco, CA	
A.F.	GERMANY	Bitburg AB	35,947
		Hahn AB	
		Zweibrucken AB	
	PACIFIC	Kadena AB, Japan	
		Yokota AB, Japan	
		Osan AB, Korea	

Service	State	Installation/ Project	Estimated Cost
A.F.	BELGIUM	Florennes AB	
	SPAIN	Torrejon AB	
	NETHERLANDS	Woenesdrecht AB	
	UK	RAF Lakenheath	
		RAF Mildenhall	
		RAF Upper Heyford	
	CONUS	Andrews AFB, MD	
		Barksdale AFB, LA	
		Beale AFB, CA	
		Bergstrom AFB, TX	
		Blytheville AFB, AR	
		Carswell AFB, TX	
		Castle AFB, CA	
		Chanute AFB, IL	
		Charleston AFB, SC	
		Davis-Monthan AFB, AZ	
		Dover AFB, DE	
		Dyess AFB, TX	
		Ellsworth AFB, SD	
		Fairchild AFB, WA	
		Grand Forks AFB, ND	
		Griffiss AFB, NY	
		Grissom AFB, IN	
		Hill AFB, UT	
		Homestead AFB, FL	

Service	State	Installation/ Project	Estimated Cost
A.F.	CONUS	Kelly AFB, TX	
		K.I. Sawyer AFB, MI	
		Lackland AFB, TX	
		Loring AFB, ME	
		MacDill AFB, FL	
		March AFB, CA	
		McChord AFB, WA	
		McGuire AFB, NJ	
		Minot AFB, ND	
		Mt. Home AFB, ID	
		Myrtle Beach AFB, SC	
		Nellis AFB, NV	
		Norton AFB, CA	
		Offutt AFB, NE	
		Patrick AFB, FL	
		Plattsburgh AFB, NY	
		Scott AFB, IL	
		Sheppard AFB, TX	
		Tyndall AFB, FL	
		Vandenberg AFB, CA	
		Wurtsmith AFB, MI	

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Mr. **Daniel**. Our first witnesses are from the Office of the Secretary of Defense. Mr. Robert Stone is the Deputy Assistant Secretary of Installations and Lt. Gen. Edgar Chavarrie is the Deputy Assistant Secretary for Military Manpower and Personnel Policy.

Gentlemen, we would like to welcome you. Mr. Stone, I believe this is your first appearance before our panel. We are pleased that you are here. General Chavarrie, you have been with us before. We are glad to have you again. Please proceed as you desire.

STATEMENT OF ROBERT STONE, DEPUTY ASSISTANT SECRETARY, INSTALLATIONS, DEPARTMENT OF DEFENSE

Mr. **Stone**. Thank you, Mr. Chairman.

First of all, I would like to say that I appreciate and understand the support of this committee over a number of years to improve the quality of life for military personnel. It has been a very important factor in the ability of the Department to make improvements.

We have pushed hard in recent years to make things better, to take better care of our people in remote locations and overseas, and we are beginning to see the fruits of that now. We have an extra special responsibility to take care of military people overseas, and we all recognize that and appreciate both your support and your pushing us in the right direction.

I have a statement for the record and with your permission, I would like to summarize it with some brief comments.

Mr. **Daniel**. Without objection.

Mr. **Stone**. My job is to make sure that we have excellent installations for our soldiers, sailors, marines and airmen. That means excellent facilities and excellent base services.

We build morale and welfare facilities with appropriated funds and with nonappropriated funds, and we are starting to provide some with private funds as well. This is a good thing that I'm trying to encourage. To help us along in getting the private sector to build facilities on military bases, we need authority to execute long-term contracts.

The Congress, particularly the Senate Armed Services Committee, has encouraged us to get private firms to build and operate child care centers on military bases, but we are finding that to do that, we need the ability to enter into long-term contracts with them; and we have asked for that authority in our military construction bill this year.

In addition, there are some things we can do without any new authority, and they are being done today. That is to allow private entrepreneurs access to our lands and to our people and let them provide facilities on a business like basis.

The Army has done some exciting things at Fort Ord, CA, where they lease a small part of the base to a private developer who built a trailer park for the soldiers, that the Army wanted there. They needed housing accommodations very badly and through using the resources of the private sector, they were able to get this trailer park in operation in less than a year. That is a method we can use to get more child care centers, restaurants, lodging facilities, and other facilities that we badly need.

FUNDING POLICY PROBLEMS

You mentioned the problem we have with our funding policy, and I would like to talk about that a little bit. At your direction, several years ago, we established a funding policy which said what can be built with appropriated funds and what has to be built with nonappropriated funds.

The policy has a fairly simple theory: The Government ought to provide for people the kinds of things that the Government provides in civil life. For example, libraries, auditoriums and playing fields.

The service members ought to pay for the kinds of things that they would pay for in private life, like restaurants, lodging facilities, and stores. We put the policy together, this committee supported it, and we promulgated it and attempted to follow it.

In addition our policy allows appropriated funds to be used for essentially any facility overseas or at new bases, and I think this is important. It is just wrong to require, for example, the airmen to pay the cost of deploying cruise missiles to Sicily or Belgium. Those facilities ought to be built with appropriated funds.

What has happened to us is that we have not been able to convince the Armed Services Committee or the Appropriation Committee that this policy makes any sense. Let me give you one example because it is crystal clear, and that is Comiso, Italy, our new cruise missile base.

Our policy says that at a new base, we can build a commissary with appropriated funds. We asked for appropriated funds for a commissary, $2.2 million, in 1983, and it was denied by the Congress. We asked for it again in 1984, and it was denied by the Congress. The airmen are there and their families are going to be there soon, so in 1985, the Air Force started construction with nonappropriated funds.

Virtually the same story occurred with the exchange, the library, the clothing store, book store, and virtually all the facilities that were needed to support the airmen at Comiso. The Department requested through appropriated funds and we failed to get them.

The only thing we have gotten with appropriated funds are a bowling alley, a gym, athletic fields and a swimming pool. Everything else we have asked for has been denied, and this year, again, we asked for funds for a consolidated club and an exchange and they were denied by the House Appropriations Committee.

Our failure to convince the Armed Services and Appropriations Committees of the wisdom of our policy puts us in a bind. If we keep asking for funds again and again for the same projects, two things happen that are really bad.

One is we lose the appropriation, and wind up doing without other facilities that the Congress might have funded. If they would not fund a commissary in Comiso, perhaps we could have had a dormitory in Germany.

The other bad thing that happens is we get further behind in getting these facilities that our people need.

So, I am not sure what to do. We have a policy that we were convinced is the right one, and we also have a responsibility to take care of our troops.

Mr. DANIEL. Will the gentleman yield at that point?

Mr. STONE. Yes, sir.

Mr. DANIEL. I think I know what we need to do. We need to do a better selling job. We have not contributed our part toward that and I regret that, but I think we do have to do a better job of convincing these committees who really pay very little attention to this type of item. They much prefer to apply their resources where they are getting pinched.

Like O&M, this appears to have a very small constituency. We are going to have to expand that constituency because it is not right to take soldiers and sailors and airmen's money to build these facilities which the taxpayers should be financing.

Mr. STONE. I value your saying that, Mr. Chairman. I could not agree with you more.

We have tried to sell it and I can only say that I and my colleagues have not been good enough at doing the job of convincing the Appropriations Committees and the Armed Services Committees. Perhaps a joint hearing might be a way to get that idea across, to get all the people who are concerned together and these committees are concerned for the welfare of the troops.

They say we agree that there ought to be a commissary and there ought to be a gymnasium and there ought to be an exchange. They just do not think the taxpayers ought to pay for it, and I would appreciate any help you can be in helping us resolve that dilemma.

That concludes my summary, Mr. Chairman.

PREPARED STATEMENT OF ROBERT A. STONE

INTRODUCTION

Mr. Chairman and Members of the Committee: I would like to thank you for this opportunity to testify on how the Department of Defense tries to provide morale and welfare facilities for our military people and their families.

PHILOSOPHY

I believe the aim of the Department of Defense and this Committee is the same. That is to act in the best interest of our soldiers, sailors, marines, and airmen by providing them excellent facilities, from bowling alleys to commissaries.

My number one morale and welfare priority is to take care of our people overseas and in remote locations, because they lack suitable morale and welfare facilities in the local community. The problem is exacerbated in many foreign countries where our people do not speak the language and are not at home with the culture.

Currently, morale and welfare facilities are financed by using either appropriated or nonappropriated funds, which I will discuss later. However, I also want to encourage the use of private funds. There are two ways I'd like to see this done:

Have the private sector build and operate the facilities and provide the service needed. However, to make it successful we need the authority to execute long-term contracts, which we are requesting in the FY86 MILCON proposal.

Lease our land to private entrepreneurs, so they can then build and operate the facilities we need. We have the land and the customers to allow a good commercial venture to be successful.

Using either of these two methods we could soon have the child care centers, restaurants, hotels and other facilities we need badly. With the second method we could get facilities without any expenditure of appropriated or nonappropriated funds.

Since nonappropriated funds are generated by existing military morale and welfare facilities rather than taxes, I believe they should be spent as the Services choose. The final list of nonappropriated fund construction projects has been reviewed at least three times within each Service, after the projects have been initially selected by the installation commander who, I believe, is in the best position to decide which facility is most needed on his installation. I don't see how we in Washington can help him make that decision, and I don't think we should.

BACKLOG

Each of the Services has a backlog of construction for morale and welfare facilities. As with all backlog lists, these are just estimates, subject to change. I would rather concentrate on replacing at least 2 percent of our physical plant value every year. With that percentage we would replace our facilities every 50 years, on the average. This may not be fast enough. It is much slower than what we find in commercial industry where they will not even renovate structures that are as much as 40 years old.

GROWTH IN THE NAF PROGRAM

I am pleased to see the dramatic increase in nonappropriated fund construction projects in the past several years. In FY82 the dollar total for projects above $200,000 was $231 million. In FY86 the total is expected to reach $562 million, a 143% increase. To me, this is a clear indication that the Services are working to improve the quality of life for their people. However, more is needed. We should applaud and encourage them in this, as well as provide the proper appropriated funds support.

PRICING

We want to build our facilities at a reasonable cost. We find it difficult to make direct comparisons with civilian facilities because our needs and operating procedures are different and we incur some costs not faced by private firms. Davis-Bacon is one example. Another is that since our commissaries are usually great distances apart, we cannot use a central warehouse as the Giant Food stores would, but must build each commissary to include its own warehouse. However, the relatively recent study done by the Navy to compare commissary costs with supermarkets, shows that our costs are comparable.

OUR DILEMMA ABOUT FUNDING POLICY

At the direction of Congress, the Department of Defense established a single funding policy which itemized those projects to be funded with appropriated funds, and those to be funded with nonappropriated funds. Basically, it is that the government is responsible for providing our service people with facilities a city would provide for its citizens—auditoriums, recreation centers, swimming pools, libraries and the like. Other facilities that would normally be provided by private industry, such as restaurants, motels, exchanges, and bowling alleys are to be built with nonappropriated funds. Also our policy allows appropriated funds to be used for all community facility construction related to new missions or relocations. Your Readiness Subcommittee agrees with that policy, and encourages the Services to submit projects for appropriated funding. However, we have been unable to convince the subcommittees dealing with military construction to fund them. That has created a dilemma for the Services who must decide how to get their projects funded. They are reluctant to follow our policy and request something that is unlikely to be funded, for it means forgoing something else they need and might have gotten instead. Therefore, they have to choose among risking the loss of appropriations, using nonappropriated funds, or doing without the project. It is hard to know what to do when you don't want to let your people suffer and you do need the facilities.

CLOSING

We would value any help you could give us in convincing the military construction subcommittees to fund morale, welfare and recreation facilities according to our policy. We are convinced that it is a sound one. Perhaps a joint hearing would help us continue to provide those facilities that our soldiers, sailors, marines and airmen need and deserve.

I would be glad to answer your questions at this time.

Mr. DANIEL. General Chavarrie.

STATEMENT OF LT. GEN. EDGAR A. CHAVARRIE, DEPUTY ASSISTANT SECRETARY, MILITARY PERSONNEL AND FORCE MANAGEMENT, DEPARTMENT OF DEFENSE

General CHAVARRIE. Yes, sir. I also have a longer statement, which I submitted. I have a couple of short remarks. Before that, may I say that we have revised our directive on nonappropriated funding and I could not be more in lock step with what Mr. Stone said. We agree over on the personnel side of the world. He is responsible for Milcon and I am responsible for military personnel. We are absolutely in agreement on the subject of where nonappropriated funds and appropriated funds should be used for community construction. We have worked together on this.

We disagree on some things, but on that one, we agree wholeheartedly. As you know, sir, we feel that we have made some progress. Not as much as we might like perhaps, but some—particularly if you look in the longer term, perhaps a decade, in upgrading our community facilities. I think this administration, with the help and the impetus from this panel, has helped that.

We are grateful for that, and for the opportunity this morning to be here to review these policies, and we hope in the next 10 years, that we will build on that kind of a record. It could be better, but it certainly is much better than it was 10 years ago.

In my prepared remarks, we talked about the changes which we expect to initiate in our construction funding policy. We also want to reaffirm the existing Department of Defense policy, particularly with regard to what we believe the Federal Government's responsibility should be for new base construction.

My remarks also identify some of the problems that are associated with accumulating enough nonappropriated funds to undertake a viable nonappropriated fund construction program. We recognize that the panel is concerned with using our limited resources, both appropriated and nonappropriated, to the best advantage.

We have, over the past year and a half, reviewed our program guidelines for construction, renovating, modernizing, et cetera, of our MWR facilities. We believe that the guidelines are adequate. The problem is, as Mr. Stone pointed out, not in creating the policy, but in being able to implement it, in terms of doing it properly with the right amount of oversight from OSD and having the funds.

But, I do think, sir, that we need to place some renewed emphasis on following up to see a bit more carefully how our guidelines are implemented right down, perhaps, to the installation and activity level. Not in the micromanagement way, certainly, but in a way that shows that the oversight is there.

We have good forums in DOD, the MWR Coordinating Committee, of which I am sure you are aware, and the Commissary Executive Board, both of which I chair. We try to look into these matters to the extent that we can and to the extent that we do not micromanage, yet perform the oversight functions for the Secretary of Defense.

We are concerned a bit, sir, with food service and hospitality programs on our installations. The advent of name brand fast foods and the raising of the drinking age are likely to have a serious effect on some of our revenues and certainly the way we do business. We do not have good statistics quite yet, but I think we are beginning to see where we are in terms of club revenue with regard to the 21 year drinking age. We should get a better feel for it in another quarter or two.

Changes in patron demands, I think, have been evolving; and we want to be sure that the military departments and the OSD respond to these kinds of changes.

There is also the question of the role of MWR activities in providing overnight accommodations. Traditionally, the Government has provided billeting facilities on base and the private sector has provided motels, hotels, et cetera, off base, which have been able to accommodate the transient military personnel, their families and their guests. Lack of adequate quarters and the high cost of commercial facilities seem to be driving us or at least directing or encouraging a larger role for MWR activities in the management and in the construction of on-base lodging.

I know you are concerned about that, and the jury is probably still out on it. The services are making decisions or looking into the extent to which the MWR world should get into that.

Lastly, sir, the current trend in the supermarket industry is toward regionalized centralization of management and distribution.

Because of this trend, we continue to study our commissary distribution system with the goal of improved efficiency. The results of our studies—there are three of them ongoing, as you know, right now, in the commissary business—could have a significant impact on our organizational structure and certainly our construction needs. So, the Commissary Executive Board, at its next quarterly meeting this November—and one of your staff members is invited to that—has scheduled construction as a number one special interest item on our agenda.

That is a very capsuled form of some of the things that I have in the longer statement.

That concludes my remarks.

Thank you, sir.

[Statement of Lieutenant General Chavarrie follows:]

PREPARED STATEMENT OF LT. GEN. EDGAR A. CHAVARRIE

Mr. Chairman, I am Lieutenant General Edgar A. Chavarrie, Deputy Assistant Secretary of Defense for Military Manpower and Personnel Policy. I am accompanied this morning by Capt. Edward F. Sullivan, U.S. Navy, Director of Personnel Administration and Services, in my office, and by Mr. Clare A. Moelk and Major Jungus Jordan, Assistant Directors for MWR and Commissaries, respectively.

I am pleased to appear here this morning with Mr. Robert Stone, the Deputy Assistant Secretary of Defense for Installations, to discuss the policy and role of the Office of the Secretary of Defense in the nonappropriated fund construction process.

BACKGROUND

One of the more perplexing problems that faced the Department a decade ago was an inventory of aged community facilities, many of which were ill suited to the purposes for which they were being used. It became apparent at the same time that the Congress was not going to appropriate funds to replace or renovate many of the types of community facilities we needed, even if the military departments could program them within military construction fund-inconstraints, which in itself presented some difficult choices. Obviously, facilities directly related to the defense mission deserved first priority, and there was frequently little program authority or resources left for community support.

Mr. Chairman, as the members of this panel well know, there comes a point when progress can no longer be postponed. The conditions of service life for people were beginning to result in poor morale, unsatisfactory family support, bad retention rates, and a readiness level that needed immediate attention.

Thanks largely to the impetus of this panel—and to the Military Construction Subcommittee of the House Appropriations Committee, which initiated annual quality of life hearings in 1981—we have made considerable progress of late in improving our community facilities and our morale, welfare and recreation programs. We are grateful for the opportunity to appear before this panel today to review our policies and to chart a course for the future that will build on this record.

FUNDING POLICY

Our policy on funding of community construction originated at the direction of the conference committee on the fiscal year 1980 Military Construction Authorization Bill. This committee, in essence, directed the Department to develop a single source funding policy. Prior to this time, the Department and the Congress had programmed, approved, and funded community construction projects on an individual, ad hoc basis, sometimes with appropriations and sometimes with nonappropriated funds (NAF).

Coming to agreement on a single-source funding policy was a very difficult task. There were sometimes divergent views within the Office of the Secretary of Defense staff and differences among the military departments. These differences were worked out at a lengthy meeting of the Department of Defense MWR Coordinating Committee. Letters were sent to the chairmen of the House and Senate Armed Services and Appropriations Committees on February 16, 1980, which designated the types of community facilities that would be built with appropriated funds and with nonappropriated funds. While no replies were received from any of these four committees, the Department began to program in accordance with the funding policy in this letter. I will defer to Mr. Stone for details, but suffice it to say that we have received conflicting signals from these committees as a result of annual military construction program submissions sent to the Congress these past five years. However, all committees have been generally supportive of appropriating funds for physical fitness facilities, libraries, child care centers, and family service centers. Much of the progress that I referred to earlier was made in these areas, and our military personnel and their families are grateful. Morale has improved, and readiness has improved.

One of the provisions of our funding policy, which has now been incorporated in a DOD directive, is that appropriated funds may be used for all community facility construction related to the establishment, activation, or expansion of a military installation or relocation of facilities for the convenience of the government. We do not believe that nonappropriated funds, generated by our service personnel, should be spent on building facilities on new sites to accommodate troop deployments, changes of missions, and other defense initiatives. None the less, this is one of the areas where we are receiving conflicting signals from the Congress. This presents a dilemma for the military departments in determining whether or not to seek appropriations for new base construction at the risk of indeterminable delay or loss of total obligation authority.

PENDING CHANGES TO FUNDING POLICY

While we ask for the support of this panel and the Congress on new base construction, we are prepared to make changes in at least three other areas, as recommended by the Military Construction Subcommittee of the DOD MWR Coordinating Committee. The first concerns playing courts and fields that are not a part of a gymnasium, fieldhouse, or physical activities complex. Our current construction policy is to build these facilities with nonappropriated funds. Mr. Chairman, your letter to the Assistant Secretary of Defense of December 12, 1984, questioned this policy since the main purpose of playing courts and fields is "directly related to readiness: i.e., to promote physical fitness and esprit de corps." We agree with this rationale, but have been hesitant to change policy because only a few playing fields and courts require major construction. The great majority can already be built with appropriated operation and maintenance funds; and most of those courts or fields whose construction cost exceeds $200,000 are because of lights, dugouts, and bleachers. While the Military Construction Subcommittees might give low priority to these projects in the United States, we believe that improved playing courts and fields in overseas areas can command high enough priority to be funded with appropriations. We are prepared, therefore, to change our policy in this regard.

The second change we will propose concerns swimming pools in family housing areas, used mainly by family members. Currently, our policy is to build all swimming pools with appropriations. Pools used for both combat training and recreation, or for therapy and recreation, or primarily by military personnel for physical fitness should continue to be funded with appropriations. But pools in family housing areas, while important, even vital, to family recreation and community esprit, are more difficult to command priority in the military construction program. For this reason, we propose that they be built with nonappropriated funds in the future.

The third change concerns arts and craft centers and automotive self-help garages outside the United States, which are currently designated for appropriated funding. These activities have limited revenue-producing capability, and it has been very difficult to secure appropriated funding for this reason. We will therefore initiate a change to build all crafts shops and self-help garages with nonappropriated funds.

PROGRAM GUIDELINES

With limits on both appropriated funds and nonappropriated funds, it is essential that the Department utilize both kinds of resources wisely. We have developed several policy guidelines for the military departments to follow in programming construction of MWR facilities. The first step is a requirement to inventory and prioritize all MWR activities on an installation and to review the prioritization not less than triennially. This review must consider existing on-base resources in addition to those in the surrounding civilian communities and at nearby military bases.

Annual and long-range MWR programs are required, which must consider program priorities based on personnel needs and interests and upon the availability of operating staff and fiscal resources. If long range programs include facilities to be acquired, constructed, renovated or expanded with nonappropriated funds, heads of DOD components are required to develop capital budgets which project expenditures for these purposes. The sources of funding and estimated completion date will be indicated.

MULTIPLE-USE CONSTRUCTION

Regardless of the source of construction funding, our policy requires that the DOD components ensure that the life cycle cost of MWR facilities be held to a minimum; that the type and size is the most economical and efficient obtainable, consistent with adequacy, for the intended use and known requirements; and that facilities are occupied and used on a joint or multiple basis to the greatest extent. The latter point, to build multiple-use facilities, has been emphasized by the Congress from time to time. And it makes very good sense.

We have witnessed changes in both commercial and municipal recreation facilities and in student union construction on college campuses in the last decade which demonstrate that multiple-use MWR facilities are programmatically more attractive to patrons and, at the same time, more efficient and economical to build and to operate. Dr. Barbara Keller, a noted consultant and lecturer on trends in municipal and industrial recreation, spoke at our DOD MWR Coordinating Committee meeting this spring. She noted that more and more Americans are engaging in self-directed sports, crafts, and recreational pursuits, as opposed to organized or directed activities. She suggested that the military consider building recreational complexes, for primarily self-directed activities, that could be kept open 24 hours a day with minimal staffing. TV monitors could be used to observe activities throughout the complex to insure safety and maintain order.

We also believe that food service and hospitality programs should be integrated into multi-use recreational facilities on military installations, much as they are in student unions or municipal recreation centers here in the Washington, DC area. Recreational facilities however should be open for use of the entire military community and should not have restricted membership. The Department of Defense has, therefore, had a policy since 1978 of not building sports or recreational facilities onto clubs or open messes.

OPEN MESSES

Mr. Chairman, we share your concern over the financial viability of military clubs, as expressed in your letter to the Secretary of the Army on August 1, 1985. Many clubs are losing money or subsidized by disproportionately large amounts of appropriated fund support or by nonappropriated fund revenues raised by other MWR activities. But officer, NCO/CPO, and enlisted clubs are a tradition in all four military services. For this reason, there is some reluctance to recognize change. Too often commanders address the question of how to save the clubs; when the real question is how to satisfy patron demand in a sound business environment. For example, at logistical support installations and other bases with large civilian workforces, employee feeding programs largely obviate the need for clubs. In fact, the maintenance of clubs on these installations probably has a deleterious effect on employees feeding.

The impact of changing trends in patron demands, the advent of name-brand fast foods, and the raising of the drinking age will further affect the clubs. For this reason we should proceed cautiously with capital improvement and construction programs. We are hopeful that, as a result of these hearings, renewed emphasis will be placed on providing on-base food and hospitality service in a business-like environment.

FUNDING OF NAF CONSTRUCTION

Mr. Chairman, as the NAF construction program has grown to assume responsibility for those types of facilities set forth in our DOD policy, we have seen other changes take place. In essence, the accumulation of NAF resources for construction has denied those same resources for day-to-day operations. This has impacted on local commanders who have had to achieve a relatively greater degree of self-sufficiency than in the past. This is true to an extent in all services. But it is most pronounced in the Army, where exchange dividends are no longer available to local commanders for meeting payrolls, buying supplies, and other day-to-day expenses.

In order to achieve self-sufficiency, local commanders have only two options: (1) use appropriated fund support up to the maximum permitted by DOD regulations and/or (2) generate more local nonappropriated revenues, through increased fees and charges and by converting golf courses, bowling centers, marinas and so forth into "profit" generators which can support other on-base activities. While the business skills of many of our MWR activity managers have been sharpened in this process, increased appropriated operation and maintenance funding and nonproductive competition both among on-base activities and with off-base commercial activities are causes of concern. In short, Mr. Chairman, assuming greater responsibility for NAF construction and husbanding those NAF resources necessary to fund these responsibilities is not without its costs, some of which are not readily apparent. For this reason, the Department must insure that we do not bite off more NAF construction responsibility than we can chew.

OVERNIGHT ACCOMMODATIONS

It is in this light that I wish to briefly mention overnight accommodations. Our responsibility to use nonappropriated funds is clear with regard to facilities where the basic purpose is rest or recreation, such as cabins, cottages, and camp sites or Armed Forces recreation centers in Germany, Japan, and Hawaii. Where the purpose, however, is to billet temporary duty personnel, families moving between old and new duty assignments, or guests, we believe that the Government and the private sector share the basic responsibility. Lack of adequate on-base billeting facilities seems to be driving our military commanders to direct or encourage more billeting facilities to be built and managed—or managed and then renovated or replaced—by the services' MWR staffs. Mr. Chairman, this is a potential multi-million dollar requirement which I believe should be addressed by Congress with appropriated funding or by the private sector and not by the military services with nonappropriated funds.

COMMISSARIES

While Department of Defense construction programming and funding policies apply to both military commissaries and MWR activities, there is a difference in the source of funding. As you are aware, a surcharge of 5 percent is added to the cost of goods and paid by commissary patrons. The purpose of this surcharge is to pay certain overhead costs of military commissaries such as utilities in the United States, operating supplies and equipment and certain facility maintenance and construction costs. Since these surcharge revenues offset the need for appropriations to operate commissaries, these revenues may only be used for commissary operations. For this reason, I would now like to turn my comments to the DOD commissary system as a separate entity.

Mr. Chairman, the March 1984 hearings before the Readiness Subcommittee, which you also chaired, have proven to be the most significant benchmark of the legislative history of military commissaries. Those hearings established publicly that

DOD operates the military commissary system as an integral element of the military pay and benefits package. The facts presented during those hearings validated that the nonpay compensation benefit produced by commissaries far exceeded the cost of operating the military commissary system. Subsequently, we have substantiated that in fiscal year 1985, we produced $1.3 billion in income effect through savings on food and household goods to military members for an appropriated cost of only $622 million to operate commissaries. Therefore, the commissary system is a proven and efficient means for DOD to compensate military members and to contribute to the retention of a professional career force in today's highly competitive and technical labor market. From this prospective the commissary system offers an excellent return on the taxpayer investment. The effectiveness of this return on investment is dependent upon our ability to operate commissaries in an efficient manner. While in a "macro" sense commissaries are an integral part of the compensation package, the return on investment is only effective if commissaries are equally or more efficiently operated as compared to private sector supermarkets.

The supermarket industry is an extremely dynamic and low overhead industry and as such, we must stay abreast of new technologies and changing management philosophies to ensure that this excellent return on investment is achieved. As a result the DOD Commissary Executive Board has assumed a more aggressive role overseeing commissary policy. The Board has sought improved efficiencies and economies through a cooperative, controlled competition between the four service commissary systems. The emphasis of this competition has been to open communications between all elements of the resale community. We have sought direct dialogues with the Congress, with the private sector (to include both the wholesalers who sell to us and the supermarket industry) and between each of the four services. This involvement by the Board has resulted in an ever increasing degree of uniformity of policy and has enhanced our ability to measure the comparative efficiencies of the four services systems against each other and against the private sector. The Board has addressed virtually every aspect of the commissary system from a policy prospective. One recurring issue at every board session has been construction policy. Although we have defined several key policy changes, our desire for increased efficiencies and the dynamic nature of the supermarket industry have dictated a major review of our long term construction strategy.

In analyzing the similarities and differences among the facility needs of each of the services, the first realization was the direct relationship that organization management structure and operational philosophy played. In most respects the size of the resale store area that the customer sees varies very little; however, the support or back up areas of the store vary in size significantly. While sales volume of the store impacts sizing, operational and organizational structure have a more direct bearing on the size of individual projects. For example, the Navy and Marine Corps each operate a centralized support or distribution system where one warehouse facility may support several commissaries under a regional support philosophy. The Army and Air Force, on the other hand, are organized where each commissary has its own warehouse and support facilities. There are other considerations that enter the equation, such as the distance from manufacturers or wholesale suppliers; but organizational structure is the first determinant.

Our reviews of private sector facility needs and operations have revealed that the customer areas (retail store) are basically the same size and comparable to our commissaries. A recent article by Mr. Wayne H. Fisher, entitled "Executive View: Times Have Changed" in the September 1985 issue of Progressive Grocer magazine tends to validate this. The normal store in the private sector is now between 40,000 and 50,000 square feet and rising. The major difference in facility, again, is the size of the support or backup areas. Most private sector companies have moved more to centralized merchandising and marketing decisions. Regional company warehouses have replaced individual store back-up areas reducing local inventories and the number of direct store deliveries. Many of these changes were brought about due to mergers in the private sector retail and wholesale food business. While we believe one aim of this strategy is to increase profit and market share, it is apparent that reduced overhead costs through greater efficiency which translates into increased earnings is a significant driving force.

For this reason, we are taking a closer look at commissary distribution. There are currently two independent studies being conducted by the DOD commissary distribution system. One, contracted by the Army Troop Support Agency for Army Commissaries in the United States, is currently being reviewed by the Army staff. The second, contracted by the Defense Personnel Support Center for the DOD Commissary Executive Board is reviewing distribution to all commissaries in Europe. The DOD inspector general is also scheduled to review this issue beginning this month. I believe the results of these reviews will have a significant impact on both organizational and construction policy for commissaries in the near future.

The recent Board policy changes were designed to recognize the impact that different organizational structures and resupply procedures have on facility needs and to increase the coordination between the different service construction programs. First, the commanders of each commissary service now exchange their 5 years commissary construction programs and coordinate schedules, sizing and costs data. The additional knowledge gained through this type information exchange ensures the needs of a military community are optimally met. Another example of actions taken by the Board was a recent change in sizing criteria policy, as we reported in a letter to this panel. Based upon the realization of the differing needs for back-up facilities, as I discussed above, and the computer aided sizing criteria now available to the commissary services, we deleted the rigid parameters for sizing commissaries contained in DOD directives. Now each commissary construction project must be justified on an individual basis. We have already seen evidence that this will simplify "red tape" approval requirements, but at the same time enhance the information available for project reviews.

Again, we have now enhanced our abilities to compare the efficiencies of each service commissary and intend to develop reporting requirements to the Board and OSD to measure the relative overhead costs of each system in business terms. In these terms, the total overhead commissary operating costs consist of the funds appropriated by Congress for commissary operations, those indirect appropriated costs such as utilities overseas and fire protection as authorized by Congress, and surcharge revenues. While surcharges are patron paid, they do offset certain overhead costs. It is our desire to ensure each service commissary system operates on a comparative overhead to sales ratio. Construction and facility maintenance, of course, are elements of these overhead costs.

While it has been suggested in the past, that a percentage of surcharge revenues be consolidated in a central pool for use by each service on a priority of need basis, I do not believe this would be in the best interest of efficiency and economy of the overall system. First, since surcharge revenues are a uniform percentage of sales for all services a transfer of funds between service systems will distort comparisons of overhead efficiency comparisons and, in effect, result in one service subsidizing another. Second, it would serve to diminish the effect of competition between the four service systems. In turn, the effect of operational efficiency as an incentive would be reduced.

Faced with a potential transitional period in organization/management philosophy, our ability to measure the separate overhead efficiencies from a business prospective and the changing trends in the supermarket industry, a long-term strategy of commissary construction is mandated. Thus, we have scheduled construction policy as the special interest topic during the November 1985 DOD Commissary Executive Board meeting. As chairman of the Board I have asked Mr. Bob Stone to participate in the total review of the commissary construction program and policies.

To sum up, I believe the DOD Commissary Executive Board has provided an invaluable mechanism to oversee major policies, measure operating results and plan future courses of action. Construction policy is only one example where we have addressed both short and long term policy decisions with a systematic and corporate approach. I believe with the continued support of this panel, the commissary system will continue to provide an equally efficient return on our investment.

This concludes my formal remarks. I will be pleased to answer any questions you may have.

Mr. DANIEL. Thank both of you gentlemen for your contribution. The Chair believes that this policy of how we delineate the funding is perhaps one of the most important for us. I believe it might be productive if we spend a little time hearing from the other members of the panel and staff on this issue. I notice several visitors in the audience who, I think, also could make a contribution to this discussion. While that is not allowed under the rules, we would certainly appreciate hearing any ideas you might have to resolve this dilemma.

Mr. Whitehurst, would you like to comment on this matter?

Mr. WHITEHURST. I think you are right, Mr. Chairman. I was just sitting here as both of these gentlemen were talking and thinking about my own tenure on the military installations and facilities subcommittee, which has the authorization responsibility for military construction.

I have been on that subcommittee now for, I guess, most of the years I have been in the House of Representatives I think that there are several problems here that have created this dilemma, as you defined it.

On the one hand, there is a shortage of dollars. That has become more acute in the last several years. We have had shortages at other times. I recall one year in the previous administration, we just did not have any military construction funds. I could not believe we reached that point, but we did. It is an area that is much neglected, and has not been addressed properly in the past. So, we arrive at these dilemmas, I recall one year, we said absolutely no tennis courts in the MilCon budget, and there were none.

It is true that there is a certain image about what you are funding. By the same token, when you go through the testimony and in the field to look at the needs, there are certainly recreational facilities very much in need.

At Dam Neck, for example, in my congressional district, the naval facility is growing very rapidly, and just put in an olympic-size pool, that is much used. It is used not only by the people on the base, but in the community. There are certain elements that are able to use it, high school teams and so forth, and that is good. That is good for community relations as well.

But the gymnasium there is a disgrace. It really is. It goes back to World War II. How do you deal with this situation? I am trying to get a chapel down there; they are currently meeting at the half end of a barracks that was built over 40 years ago.

Anyway, I think it is prudent to have these hearings and maybe we will get some directions out of them.

Can I ask just one question? It is kind of an involved one, Mr. Chairman.

Mr. DANIEL. Of course.

Mr. WHITEHURST. It is kind of complicated.

Both or one of you may want to answer it. General Chavarrie's predecessor, General Tice, had a consultant review morale, welfare and recreation construction. That study in 1983 found that the facilities were too large and too abundant. They were being built by personnel of questionable planning skills, fees and charges were much lower than those in the civilian sector and guidance on fees and charges was unclear and conflicting.

During the last few years, the panel has found that these problems continue to exist. The basic question is: What can be done at the OSD level to get these problems corrected? General, do you want to have a shot at it?

General CHAVARRIE. Yes, sir. I know. I read the report that you are talking about. I suppose that conventional wisdom would say that prices in general have gone up and, so, prices have gone up on the base as well.

That is not a good answer, however. I think that we have tended to, and I alluded to it a little bit on micromanaging, we perhaps have tended to let the services manage their own. We cannot control the managers. We do not hire, we do not fire. We do not audit or tell them exactly how to do their accounting and financing.

We try to maintain the general oversight. I am not sure what else we might do at the OSD level. Perhaps the services can suggest something. That report was a very good one. We have written a directive, a revised directive, that is a kind of overall program guide. It talks about master planning—how you do it, the kinds of consideration in general that you need to evaluate.

I guess we are trying hard. I am not sure we have made enough headway, but I can assure you we are quite aware of that report.

Mr. **Whitehurst**. That is all. I yield back, Mr. Chairman.

Mr. **Daniel**. Mr. Nichols.

Mr. **Nichols**. Yes, Mr. Chairman. Thank you.

I am listening to you saying, that the money is short. But I notice here in 1983, you had $216 million for NAF construction, and then 3 years later, in 1986, you have $482.

It appears to me that those moneys have literally doubled in 3 years. It also shows that the Army has a $3.3 billion backlog of military construction that is needed, and it would take 20 years to catch up at our current replacement rate.

Is that saying that at a half billion dollars a year for the whole DOD NAF Construction Program, the Army's part of that would take 20 years to eliminate that backlog?

CONSTRUCTION BACKLOG

Mr. **Stone**. Mr. Nichols, I am not convinced that we will ever catch up. The numbers are representative of the enormous problem that we have. In particular, the Army has a lot of facilities that have had little done to them since World War II. Many Army bases have a frightful lack of facilities.

One gymnasium with one basketball court in a community in Germany with 8,000 or 10,000 soldiers. They are really in the hole, there is a long way to go, and it is going to take us a long time to do it.

Mr. **Nichols**. Mr. Stone, let me speak to you about your statement here. I notice you say that morale and welfare facilities are financed by using either appropriated or nonappropriated funds. However, you also want to encourage use of private funds.

You say, one way is to lease our land to private entrepreneurs, so they can build and operate the facilities we need. We have the land and it costs a lot for our good commercial ventures to be successful.

I know I do not have to remind you about Senator Mattingly's amendment and the work that our good chairman had to do in persuading and cajoling people to move away from that amendment.

Now, let me say to you, when you talk about building military hotels on posts, you just run into all sorts of opposition in the private sector. It is not only from the people in the motel business around Fort McClellan or in Anniston, AL. I am talking about the public. It gets printed in the paper that somebody is thinking about building a military hotel on post, and the general public sees this as getting into the private sector's ballpark and the military should not do it.

There is a great deal of opposition to that, and I wanted to make you aware of it. I have heard it from many, many other Members of Congress.

Mr. STONE. I appreciate your comment, Mr. Nichols. We have been building hotels for many years, and what I am hoping for is something that is a little different. Telling a number of private businessmen if you folks want to build a hotel that is really a first-rate hotel that will serve our soldiers, we will let you build it on our land near where our soldiers are.

I think that the commander at Fort McClellan, for instance, would be in a good position to judge——

Mr. NICHOLS. Mr. Stone, I hear what you say, but the public does not look at this as private. It is on a military post, on military soil, on a Federal installation, and I am just telling you that, regardless of whether it is private capital and operated by Marriott or the Holiday Inn or Days Inn or whoever it might be, out in the community, the general public looks at it as a military project competing with people off the base.

Now, Mr. Chairman, I have some specific questions that I want to ask about one or two of these projects, but I will defer that.

Mr. DANIEL. Proceed.

Mr. NICHOLS. I am curious as to how you go about sizing these projects. You have several bowling alleys here, I believe.

One is Fort Monroe, VA. How many active duty people are assigned to Fort Monroe?

General CHAVARRIE. I am not sure of the number. It is not a very——

Mr. NICHOLS. I am told it is less than a hundred.

General CHAVARRIE. Well, I was there about 2 months ago. You probably have a better number than I do. There are not very many. You are right.

Mr. NICHOLS. If that is true, if there are a hundred there, you are talking about $7,300 per individual for that bowling alley project. I am certain the retired community would utilize those services, but I am just curious about how you go about sizing that facility and also the one at Fort Story.

There may be more people at Fort Story. There are more active duty there, but that post is sort of a resort post. It is out in, as I have been led to believe, Virginia Beach.

Mr. WHITEHURST. If the gentleman will yield?

Mr. NICHOLS. Yes, sir, I figured you were going to have a comment about that. I will be glad to yield to my friend.

Mr. WHITEHURST. In effect, Fort Story has two hats. It has increased its significance as a result of the stationing there of the air cushion vehicles that are used for amphibious operations. There are a fairly large number of soldiers there now.

I think the gentleman's point is well taken. The conditions existed there, say, 10 years ago, when Fort Story was on the point of being jettisoned by the Army, declared excess. However, its function has become more important, and there are a fair number of people there today.

I do not know what the exact count is on military population, but I know it is well over a thousand. But, Fort Monroe, that is in another district.

General **Chavarrie**. Well, sir, if I might, I think we have directives that are general in OSD. I think that is a conscious decision. As I mentioned earlier, we do not want to micromanage the services.

I will tell you what is in some of our directives. Take a look at the size of the patron base take a look at the people that you have on the base, the people you might consider in the retired population. Take a look at what the facilities are outside, and there may be a bowling alley right outside the front gate. There may be other community facilities that are outside the gate. Our directive says to the services that they must take account of those things when deciding one way or another what size to construct a facility—whether you need a bowling alley, and so forth.

These are general guidelines that we have, and the services then take and implement those very general guidelines into more specifics. It might be a good question to ask other witnesses, the specifics of that.

But, in general, we do not want to micromanage. We do not want to control and stifle initiatives. There could be good and valid reasons for the bowling alley at Fort Monroe. In general, that is the way the oversight works in OSD. Give them general guidelines. Do not hire, fire, control, but let them size it based on the criteria.

I suppose you could call us criteria developers. Then the services take the general criteria and operate from that. Mr. Nichols.

Mr. **Nichols**. Thank you, Mr. Chairman.

Mr. **Daniel**. Mr. Martin.

Mr. **Martin**. Yes; thank you, Mr. Chairman.

I just wanted to point out something I had not shared with the chairman, when he asked me to be a panel member. The last 6 months I was in Vietnam, I went from the squadron to the group. Part of my job was to supervise clubs—enlisted clubs, sergeants clubs, staff NCO and officers clubs—and there were deplorable conditions. The Marine Corps, God be good to them, had the most ridiculous way of trying to provide those services because there were not many other places in town that you could go. In fact, there were none. There were some pretty exotic ways to fund those facilities, which I am very proud of, probably as I am of anything. They are probably now the town hall of Chu Lai for all I know.

But, this exotic funding happened because we did not have the authority or the speed to build the facilities that were needed. So, I am very interested in ensuring that these facilities, stateside or overseas, are provided because days can get awful long if you do not have anything to do but work. Sooner or later, the sergeant may send you home and you have no place for recreation either. You might find yourself getting in trouble.

But, the suggestion that was made concerning a joint hearing with Milcon and our panel is, I think, a very good one, and we ought to do it. However, the practicalities are such that, with the fad being now to cut the defense budget, irrespective of threat or need or quality of life or anything else, because the latest poll indicates that is what we ought to do, this puts an awful lot of pressure on Mr. Dellums' subcommittee and the full committee as well.

As a matter of fact, we made a conscious decision in the Armed Services Committee that the quality of life type items in Milcon, were going to get a little bit bigger share, and a smaller cut, compared to R&D and procurement. That all having been said, as the bill comes to the floor, some public spirited citizen, in the interest of pointing out how they want to cut defense, will ignore our authorization and will offer to cut these items willy-nilly, notwithstanding our conscious decision.

But, you know, when we have the decision on Milcon, to build a bowling alley, pool, commissary or exchange as opposed to stationing troops in a certain place because we perceive it to be necessary in the defense of this country, you have a real Hobson's choice. The comments made by one of the gentlemen, are true, the Congress often fails to appropriate.

Now, that is accurate, but it is not because we did not want to; it is because we have very difficult decisions to make. I am not sure we can iron it all out in a joint hearing, but I think it is appropriate that those people who do not serve on both committees, as I do, have the opportunity to understand that there are an awful lot of Hobson's choices.

One other thing I want to ask. Both the gentlemen referred to "hotels." Secretary Stone referred to hotels and inferred that a lack of adequate quarters and/or high cost of commercial facilities, seems to be guiding some of our military commanders to direct or encourage a larger role for MWR activities in management and construction of on-base guest houses and other temporary lodging facilities.

Now, having had the experience of having troops moving in town without a place to put their family for 6 or 8 weeks trying to find schools for their kids and trying to cook on a small gas range or whatever, I know the problem it causes, I have been there myself, personally.

But, do I understand this hotel term correctly? Are we talking about, in some instances, looking for a private enterprise, whether it be a hotel chain or otherwise, to finance the on-base guest houses as opposed to what we would normally think of as the Key Bridge Marriott? Is there some confusion here or is it a commercial-type hotel you are talking about as opposed to guest houses? Are you talking about two different things?

Mr. STONE. I think maybe I am guilty of confusing things a little bit. It is not an obvious commercial enterprise. On military installations, we need places for people who are assigned there or temporarily there to sleep. I call it a hotel just because it is the closest thing in my own language.

We call them visiting officers' quarters, or visiting enlisted quarters, or temporary lodging facilities. The point is that it is a place for military people to stay overnight. Primarily in the discharge of their duties.

Mr. MARTIN. And also for families who are looking for housing, either on base or in the community?

Mr. STONE. Yes, and I would hope that these facilities could be made available and extended to members of the community, like retirees on a space available basis, when active duty people do not require them.

But, it is not an ordinary commercial hotel. It is a special kind of——

Mr. **Martin**. Then, I would have this suggestion and in concert with what the gentleman from Alabama had to say, I make a strong recommendation that you expunge the word "hotel" from your vocabulary.

Mr. **Stone**. I shall.

Mr. **Martin**. You are not talking about commercial enterprises. There is a need for visiting officers' quarters, and visiting enlisted quarters. When a family is uprooted and brought to a base they need quarters while looking for a home in the community. There is a need for those guesthouses, and we have some now. Some of them are also an absolute disgrace on any number of bases.

But, to use the word "hotel" does not even accurately describe what you are trying to do. It is not a hotel convention center. It is not like any hotels where you stay. You say the word hotel, and it is a very difficult situation, at best. You are not really talking about competition with anybody downtown. You are just talking about, as I understand it, perhaps private enterprise doing something that you have been in the business, or I should say, we have been in the business of doing ever since we had the first guy in uniform.

I read some of these articles, and after awhile, I begin to think that what you are talking about is to put the Key Bridge Marriott, over at Fort McNair and that is not what you are doing.

So, if you would not use that word your actions won't be misinterpreted.

Mr. **Stone**. I will try to avoid the use of the word in the future.

General **Chavarrie**. I noticed, Mr. Chairman, that Clare Moelk, for whom we both have great respect, was very careful in drafting my statement. We did not use the word hotel.

Mr. **Daniel**. I am sure Clare would never use that word. He knows the consequences.

Mr. **Martin**. An analogy I would suggest is that it makes about as much sense to say the President, comes out in the Rose Garden and gives a big speech on "his star wars program." That would not help his program much either nor does star wars describe what he is trying to do anymore than hotels describes what you are trying to do.

Mr. **Stone**. I know I am not allowed to use the word star wars.

Mr. **Martin**. Thank you.

Mr. **Daniel**. We need to close this phase of this hearing at 12:15, so I have one question, but please respond to it very briefly. But, then, I would like to have a rather exhaustive response for the record because perhaps we can do something to help in this area.

This follows on the question asked by Mr. Whitehurst. We hear frequently that some of the reasons that you have the problem that he alluded to, has to do with excessive regulations and laws, passed by this Congress, that run up construction prices. The question is: Has DOD or OSD looked at this and identified the laws and regulations that force up the cost of construction, either NAF or Milcon?

In a similar vein, has the Department attempted to determine what regulations cause the length in time it takes to get projects built? It would seem to me that it would be helpful to this committee if you all could take some time to sit down and enumerate those regulations and those laws that may be retarding your progress in some of these areas.

We would appreciate having that.

Mr. **Stone**. I will be glad to provide that, Mr. Chairman. I believe that laws and regulations do run up the cost of construction, and our system of approval and review stretches these things out to an unbelievable amount of time to get something done.

I recently visited Great Lakes Naval Training Center, where McDonald's had opened up a hamburger fast food restaurant on the base, and the young naval officer who was driving me around said, "Do you have anything to do with construction?" And, I said, "Yes." And, she said, "How come McDonald's can build a restaurant in 4 months and it takes the Navy 8 years?" And, it is a very——

Mr. **Daniel**. That is what a lot of people ask us, too, Mr. Secretary. I should tell you.

Mr. **Stone**. Yes, sir.

Mr. **Daniel**. And, this is the type of thing we want in your response.

Thank you very much, gentlemen, for your attendance. We will have some additional questions for the record, but we need to move on to some other witnesses, and we deeply appreciate your attendance.

General **Chavarrie**. Thank you, sir.

[The following questions were submitted to the witnesses to be answered for the record:]

Costs of Government Laws and Regulation

There are two aspects of the procurement process, the compliance and reporting requirements that add cost and time. Listed below are the MILCON contract clauses impacting on these two areas and which to our knowledge would not to apply to typical private construction contracts. These clauses are also included in NAF construction contracts. This list provides a breakdown by categories, clause title and origin of the requirement (Statute, Regulation or Executive Order). A majority of the clauses are required by statute.

Clause	Statute	Regulation	Exec Order
A. Social Action Clauses			
1. Equal Opportunity	X		X
2. Utilization of Women-owned Business Concerns	X	X	
3. Utilization of Small Business and Small Disadvantaged Business Concerns	X	X	
4. Clean Air and Water	X		
5. Subcontracting Plan for Small Business and Small Disadvantaged Business Concerns	X	X	
6. Local Affirmative Action Plan		X	
7. Environmental Litigation	X		
8. Affirmative Action for Handicapped Workers	X		
9. Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era	X		
10. Convict Labor	X		X
B. Cost Control and Accountability Clauses			
1. Examination of Records by Comptroller General	X		
2. Price Reduction for Defective Cost and Pricing Data - Price Adjustments	X		
3. Audit by Department of Defense		X	
4. Subcontractor Cost and Pricing Data - Price Adjustments	X		
5. Cost Accounting Standards	X		
6. Administration of Cost Accounting Standards		X	
7. Assignment of Claims	X		
C. Business Protective Clauses			
1. Buy American Act	X		
2. Preference for Domestic Specialty Metals	X		
3. Jewel Bearings	X		
4. Preference for United States - Flag Vessels	X		
5. Preference for United States - Flag Air Carriers	X		
D. Labor Statute Clauses			
1. Subcontracts		X	
2. Davis-Bacon Act	X		

Clause	Statute	Regulation	Exec Order
3. Apprentices and Trainees		X	
4. Payrolls and Basic Records		X	
5. Compliance with Copeland Regulations	X		
6. Withholding of Funds	X		

In order to prepare a bid the contractor must: 1) determine the requirement; 2) obtain adequate resources to assure compliance with the requirement; and 3) assure that his/her management system is able to document compliance with the requirement for the Government. There are costs associated with these three steps. However, the exact percentage of the associated costs cannot be estimated due to the nature of the procurement process which requires that "purchase of and contracts for property or services ...shall be made by formal advertising" (10 usc 2304(a)). That is, the Government must accept the lowest lump-sum price bid and thus, is, not privy to a contractor's cost estimating allocations prior to bid opening. The items generating these additional costs however can be identified. For example, Category A Clause titled "Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era," which applies if the contract will be in excess of $10,000, requires the following actions by the contractor:

(a) initiate affirmative action to employ, advance or otherwise treat qualified veterans without discrimination.
(b) list all suitable employment openings at local offices of the state employment service system
(c) report such employment openings and hires to such local offices
(d) post in conspicuous places notices stating the contractor's obligation under the law
(e) notify each labor union or representative of workers with which it has collective bargaining of his obligation under this clause
(f) include the provisions of this clause in all subcontracts or purchase order of $10,000 or more.

Thus, the prospective bidder as a minimum must:

(a) assign an individual to perform the various tasks.
(b) incur publication expenses to meet public listing requirement
(c) establish in-house documentation procedures to meet requirements for reporting his obligations and to rebut charges of non-compliance should they occur.

Similar actions and associated costs also apply, albeit not necessarily in the same magnitude, to all the clauses listed under Category A. Category B, Cost Control Clauses and Accountability, are directed at controlling the costs associated with the contract and assuring that the Government can properly account for the expenditure of public funds. The means by which the Government achieves these two goals can be illustrated by the following example. The Cost Accounting Standards clause, applicable to all negotiated procurements, in excess of $100,000 (AE contracts and construction charge orders) requires the contractor to take the following actions:

(a) submit a Disclosure Statement disclosing his cost accounting practices
(b) follow consistently the cost accounting practices disclosed
(c) comply with all Cost Accounting Standards in effect on the date of award
(d) allow any authorized representative of the agency, the Cost Accounting Standards Board or Comptroller General of the United States to examine and make copies of papers relating to that compliance

(e) include the substance of this clause in all negotiated subcontracts into which he enters.

Thus, a contractor awarded a construction contract by the formal advertising method of procurement who is confronted with a change order in excess of $100,000 must as a minimum take the following actions:

(a) determine the requirements of the Cost Accounting Standards and compare his accounting procedures

(b) restructure his accounting procedure, if required, since the Cost Accounting Standards do not recognize bad debts, entertainment expenses and advertising costs as allowable overhead items

(c) establish an accounting control system which documents his compliance with the Cost Accounting Standards

(d) make his accounting system available for inspection by the Government.

The prospective bidder or proposer must therefore apply additional resources (labor and time) to assure compliance with this requirement over and above his normal allocation of resources to the accounting function. The purpose of the Category C Clauses is obvious. They are intended to assure that American firms are favored over foreign sources. Contractors must, therefore, institute procedures to assure that raw materials products or equipment meet the requirements specified. Category D. Clauses, which are directed at the labor effort in construction contracts, require the contractor to perform various actions. As an example, the Davis-Bacon Act, which applies to all construction over $2,000, and its implementing Department of Labor regulations require the following:

(a) Prepare and submit a payroll for each week of work. (Subcontractors must also submit payrolls each week).

(b) Prepare and submit certification each week that employees have been properly classified and paid. (Subcontractors must also submit).

(c) Submit certification that all labor provisions have been incorporated in each subcontract and sub-subcontract, etc.

(d) Submit certificates if Apprentices and Trainees are employed that establish they are registered with the Department of Labor.

(e) Allow employees to be interviewed by the Government on the contractors' time during the work day, in order for the Government to determine if employees are properly paid and classified.

Government employees must verify compliance with these action items and the contractor must therefore initiate adequate recordkeeping procedures to assure compliance. Lastly, there is another category of clauses which deal with Work Control. This category of clauses is present in almost all contracts. In the private sector the contractor performs these functions for his own ends. In Government construction contracting, however, these functions are performed for the benefit of the Government and require a more rigid set of procedures. These clauses are:

	Work Control Clauses	Report	Approval Required
1.	Progress Charts and Requirements for Overtime Work	x	x
2.	Contractor Quality Control	x	
3.	Proposed Material Submittals Required by Contractor	x	x
4.	Catalog Data	x	x
5.	Samples	x	x
6.	Contractor's Daily Report	x	
7.	Work Outside Regular Hours	x	
8.	Contractor's Inspection System	x	

These clauses are directed at assuring that the work progresses in an orderly and manageable way. The contractor is required to submit and report the various items as the work progress either for approval or informational purposes. The Government then provides approval or disapproval of the submittal or report and also utilizes this information to verify that the contractor is in fact performing what is required. Throughout this discussion we have been describing the impact of the various clauses in terms of how the contractor must respond to the requirements. Conversely, the Government must assure compliance with all the contract clauses. The method used to achieve this is the inspection process. This process of inspection once again impacts on the contractor as he must allocate time and resources, normally utilized on other tasks, to assist with and respond to inspections.

There are a variety of contract requirements, or statutory burdens, that apply to Government construction contracts but not to those in the private sector. Although the cost of some of the statutory requirements, such as Davis-Bacon, has been studied individually, there has been no comprehensive study to determine the cost of all the requirements. We estimate the Davis-Bacon Act adds 4 percent to the cost of construction in the United States. The cost of all the statutory requirements should certainly exceed that amount. The number and complexity of the clauses has one other cost impact that is higher prices due to reduced competition because some contractors decide not to endure the hassle of bidding on government contracts.

Time The time added to government contracts by these provisions is also very difficult to estimate. Jobs are sometimes delayed because the contractor has not complied the clauses. However, there is a part of the facilities acquisition process in which the time required to comply with laws and regulations can be quantified. That is in the procurement of AE services for facilities design. The times in the chart are average expected times for an individual AE contract costing between $200,000 and $500,000. Larger contracts take more time, smaller contracts take less time.

Activity	Normal Time (days)	Maximum Time (days)
Design authorization received	0	0
Prepare CBD announcement	2	7
Announcement in transit and being prepared for publication	7	10
AE responds to announcement	30	40 1/
Preselection	3	6
Selection	4	8
Slate approval	2	3
Selection approval	14	20
Prepare request for proposal	3	5
Prepare fee proposal	14	15
Audit	30	120 2/
Negotiate	4	8
Prepare contract package	10	16
Notice to proceed	2	4
Start design	0	0
Total	125	262

Notes: 1/ The competition in contracting act extended the minimum CBD announcement from 14 to 30 days.

2/ Audits of negotiated contracts below $500,000 are not required by the Competition in Contracting Act, however, recently a requirement for audits by the Defense Contract Audit Agency for all negotiated contracts or charge orders in excess of $100,000 was added to the DoD supplement to the Federal Acquisition Regulation. When this limit existed 3 years ago the time to complete audits exceeded 120 days in many areas of the country.

Question: Are you aware of the proposed language being considered by the Senate Appropriations which would require that the price of tobacco products be increased in military commissaries? What do you believe would be the impact of this legislation if enacted?

General Chavarrie: Yes, we are aware of the language and we have been actively involved in advising of the significant, potentially devastating, impacts that this legislation would have on commissaries and the morale of the military community. While I recognize the intent of the language is to attempt to reduce the sale of tobacco products for health reasons, the legislation would have an extremely negative impact. First, while it is arguable as to what extent price affects an individual's decision or habit of using tobacco, the fact remains that over 50% of the military community uses tobacco products. This fact makes the savings on tobacco products a highly visible benefit. The artificial increase of cigarettes to deemphasize smoking or to offset the costs of operating commissaries results in an infringement of individual freedom of choice and in a taxation aimed specifically at the military community and results in lost buying power to 50% of military members. Of alarming concern is the precedent that would be established that commissary savings would be reduced or eliminated to offset the cost of commissaries. As you know, DoD operates commissaries as an integral part of the pay and benefits package. The commissary provides income to the member through the 25% savings or discount buying available to the military community. This income effect is directly reliant on the fact that appropriated funds pay a major portion of the operating costs. Raising prices to the military to offset the appropriated operating overhead is in reality false economy. It is for these reasons that I strongly nonconcur with the proposed language and I would ask the Panel's continued support in this regard.

Panel's 1984 NAF Construction Report

Mr. Daniel: The Panel's NAF construction report to Dr. Korb last year noted that we found:

- -- Inaccurate Data on the 1391's,
- -- Nonexistent or superficial project justifications, and
- -- Poor Long-range planning.

Our report on the 1984 projects noted problems with developing service-wide priorities and the excessive construction times. We seem to be finding these same problems this year. What has OSD done to correct these problems?

Mr. Stone: How to develop priorities and long-range plans and what those prioirties and plans are, are the prerogatives of the Services. I think the Services are doing a good job in trying to provide MWR facilities where the need exists. They do not need to be told how to set their priorities or develop their plans. What they need is more resources. Construction does take a long time. I refer to my response to you other question on this.

I think that review of individual projects at the OSD level serves no purpose, since it tends to focus our attention on minutiae. The Services have been provided copies of the report you mentioned. They will take it under advisement.

Remote Locations

Mr. Daniel: The panel has taken a very strong position on the need to provide facilities for our troops stationed either overseas or in remote sites. A remote site could very well be here in the United States--Yuma, Arizona is one example. What are you, at the OSD level, doing to emphasize the need for improved facilities at these types of locations by the Services?

Mr. Stone: Defense Guidance stresses our goal to have excellent installations to provide excellent working and living places for all of our people. It states that the highest priority should continue to be providing quality-of-life facilities at overseas locations. Our Defense policy for funding MWR facilities provides a basis for all the Services to pursue appropriate funding for those facilities. The Services are aware of the need for improved MWR facility support and they are attempting to put as much money as they can into such facilities where they need them most; that is, where there is little outside community support, such as overseas or in remote stateside locations. They need little urging for this. Yet, I continually encourage them to pursue all sources of funding for such facilities. They could do more if the Congress were willing to provide funds in accordance with the DoD policy, which was developed at the urging of the Congress.

Two-Year Authorization

Mr. Daniel: Several of the Services have recommended that we change the NAF construction reporting instruction to allow for a 2-year authorization period. This means that you would still submit your programs annually but, once a project is approved, you would have 2 years to get that contract awarded and project built. Are you in favor of changing the regulations to this 2 year authorization cycle?

Mr. Stone: Yes, the recommended change would simplify the report.

Question: Your testimony addresses the purpose of MWR overnight accommodations.

Please tell us any initiatives you are aware of that would transfer billeting functions to the MWR arena and your views on these initiatives.

General Chavarrie: Based on the DoD Directive on Temporary Lodging Facilities (TLFs), issued in the early 70's, involvement of the MWR program in billeting seems to have been an expedient solution to a problem of lack of hotel/motel facilities in some communities to accommodate transient families moving from one military assignment to another. TLFs specifically do not include facilities used primarily for rest and recreational purposes, nor are they to be considered officer and enlisted quarters or included in the Military Family Housing Inventory. TLFs are to be built only after liaison with local governments, community organizations, and motel owners. Prior to acquisition of TLFs, the possibility of the provision of adequate temporary housing by the civilian community within a reasonable period of time should be examined. Further, existing units at each installation in the United States will be reviewed triennially to determine the necessity for retention of such units.

The only role by the MWR community specified in the DoD Directive is one of funding for construction (with nonappropriated funds) and accounting for occupancy fees. This role has been expanded in the Army and the Navy to full-fledged operation of TLFs.

In addition, the Army MWR program now encompasses expanded nonappropriated fund responsibilities for short-term transient billeting for single and unaccompanied personnel.

Overnight accommodations for other than rest and recreation is not a legitimate MWR function. And the nonappropriated fund mechanism, used to construct and operate TLFs in the past, no longer appears to be needed in view of authority granted two or three years ago by the Congress permitting rental of on-base quarters and the retention of these rents in installation housing accounts. Additionally, third party financing, either on or off-base, appears to be another viable alternative which is preferable to nonappropriated funding in the United States.

Question: Your testimony addresses the problems we are seeing in the club systems. It seems the Services are all seeking answers to these problems but in a rather uncoordinated fashion.

Do you think this is an area where an upgraded MWR coordinating board could take a leading role?

General Chavarrie: The problems with the club systems require more than a coordinated effort. We need a directed, focused approach to look at all on-base food service and hospitality functions. Accordingly, I am taking steps to seek consulting services from outside the Department of Defense. I plan to combine expertise from these sources and from within the Military Services to address these matters.

Question: The Commissary Executive Board is composed of the leaders from each of the commissary systems, however, your MWR coordinating committee is composed of working elements from each of the MWR organizations. Do you believe that there is a need for an MWR executive board?

General Chavarrie: The DoD MWR Coordinating Committee is comprised of representatives from the Office of the Secretary of Defense, Offices of the Assistant Secretaries of the Military Departments, and the chief operating officials of MWR programs in each of the four Military Services. Because of the scope of the MWR program, which encompasses a broad range of activities, the reports of the seven subcommittees and topics of operational importance comprise a sizeable portion of the agenda. Of late, some of the principal representatives to the Committee have been represented by subordinates from the working elements. I agree with the thrust of the question, and I intend to meet periodically with the senior military officers who have policy or staff oversight over the Services' MWR programs. Additionally, I will emphasize the importance of attendance by principal representatives at the DoD MWR Coordinating Committee meetings. I will also schedule substantive discussion items at the top of the agenda to accommodate principal representatives who are unable to attend the entire session. In addition, I will continue to meet with selected groups of principals as necessary to discuss specific subjects, such as credit in military exchanges, construction funding policy, child care, and so forth.

Question: The Panel understands that among your responsibilities you are Chairman of the Commissary Executive Board and also of the MWR Coordinating Committee. Can you explain to the Panel what these two organizations have done to review the need and sizing of construction projects?

Answer: The MWR Coordinating Committee has a Construction Subcommittee which concurrently serves as the advisory committee to the Army Engineer office responsible for maintaining the DoD Construction Criteria Manual. In this capacity the MWR Construction Subcommittee develops sizing guidance for various types of MWR facilities. The Child Care Subcommittee also developed a standard DoD design guide for child care centers. Neither the Committee itself nor any of its subcommittees review the need for any specific construction project. Needs are determined locally and reviewed within each Service, through the command chain, prior to inclusion in the appropriated funded Military Construction Program or reported to the House Armed Services Committee on the Nonappropriated Fund Construction Report.

The DoD Commissary Executive Board was directly responsible for the recommendation to change the DoD construction sizing criteria for commissaries. This recommendation was as the result of a joint Services review of commissary sizing requirements. The analysis produced the realization that there were many variables in the sizing of commissaries and that it was the aggregate of these variables that determined the ultimate design of a specific commissary. Examples of these variables are the distance of the commissary from wholesale suppliers and the operational organization of the commissary system involved. Based upon these variables and the availability of computer aided models within the Services, we believe that individual project sizing and design is the most prudent course. In this vein, each project must be justified on its own merits and needs.

Question: The Commissary Executive Board recommended realigning a number of stores among the Services. For example, you thought it made good business sense to have the Air Force run the Army store at Harrogate in England.

Please update us on the status of these initiatives.

General Chavarrie: The DoD Commissary Executive Board directed the Joint Services Commissary Committee to conduct cost and efficiency reviews regarding ten potential realignments. To date the decision has been made to implement three of the recommendations. These three actions are as follows:

1. The Air Force assumed operational management of the commissary at Harrogate United Kingdom from the Army on October 1, 1984.

2. The Air Force will operate a small commissary outlet at Nea Makri Greece as a branch operation of the Hellenikon store. The Nea Makri store will support Navy personnel assigned at this Navy site. The implementation is being withheld pending resolution of the construction/rehabilitation of the existing facilities in Greece.

3. While the Navy commissary at Chinhae, Korea will continue to be managed by the Navy, the store will be supplied by the Army distribution system. Therefore a separate Navy system to supply Chinhae will no longer be required.

Two additional actions have been held in abeyance pending further review or resolution of mission change actions beyond commissary control. These two proposals are (1) the management transfer of the Fort Fitzsimmons commissary to the Air Force, pending a decision on the future status of Fort Fitzsimmons, and (2) supply of the Army commissary at Presidio of San Francisco to the Navy distribution system pending the completed construction of the Presidio store and completion of the Army central distribution study. The remaining studies revealed no appreciable benefits and the status quo will continue.

We view these as initial actions. The Board has embarked upon an aggressive review of the corporate strategy aimed at the continued improvement of efficiency, economy and service of the system as a whole. This review consists of a series of macro level policy decisions to establish a roadmap of how the system should look in the future. Our strategy is based upon the concept of competitive but separate Service systems. We will standardize those policies and operational concepts which prove to benefit the efficiency, economy and service of the system as a whole.

Considering the dynamic nature of the industry, we must continue to keep pace with industry trends and seek innovative, better ways of doing business. Examples of this are our efforts to standardize pricing policy, the distribution system, bill paying procedures and construction.

Question: Your testimony states that DoD has had a policy of not building sports or recreational facilities onto clubs or open messes.

Has the Army received a waiver from this policy for its proposed health clubs at Ft. Sill?

What is your opinion of these projects?

General Chavarrie: My office has not received a request for guidance nor have we given the Army a waiver for its proposed health clubs at Fort Sill. Our policy is that sports and recreational facilities should be open to the installation population at large, in the same manner that municipal services are offered to all residents in civilian communities. My understanding is that the proposed health clubs at Fort Sill do not meet these criteria.

Question: Many of these resale projects being proposed could impact on commercial off-base businesses. What analyses do your regulations require to determine this impact? Is this impact factored into the decision making process?

General Chavarrie: Our regulations require that private and public MWR resources in the area immediately next to a military installation shall be taken into consideration when determining and evaluating on-base program needs. In addition, bases located within 10 miles or 30 commuting minutes of an urban area in the Continental United States are required to conduct a survey of available civilian or commercial MWR alternatives. This survey addresses accessibility, acceptability, and the cost of commercial activities to the Service member, but does not attempt to estimate the impact of on-base MWR activities, either current or planned, on commercial off-base businesses. It would be impractical to assess this impact, since commercial businesses are affected by a large number of factors, including competition from other businesses and the overall state of the economy, which are unrelated to MWR activities on-base.

Question: We realize that the Office of the Secretary of Defense publishes many rules, regulations and instructions. For example, one of your basic instructions talks about breaking MWR needs into three categories: indispensable, essential and desirable. These categories are implemented by the Services and become the basis for setting priorities for various projects. Yet, we find that the Services have come up with different types of projects in each of the categories. The Air Force, has about 15 different types of projects in its indispensable category, whereas the Marine Corps has only 5 or 6 different categories. For example, the Air Force would include projects like a nonappropriated fund warehouse, a recreation supply support facility, or a recreation center as 'indispensable. Yet, the Marine Corps considers these things as either essential or desirable. How does OSD review the implementation of its policy by the Services?

General Chavarrie: Our policy is written for interpretation and application at the installation level. Obviously, what is indispensable, essential or desirable at one location may not be the same at another location. Since the application of the DoD criteria require some subjective judgment, it is unlikely that there will be uniformity throughout the Department.

Question: In your statement you mention "profit generators" like bowling centers and golf courses. We find these facilities often would not generate a profit unless subsidized by appropriated funds.

Managers are using this subsidy to keep fees and charges very low. One bowling center, for example, had fees of only $.80 per line while the commercial centers off the base were charging $1.50. The military bowling center was maintaining its low fees and generating an artificial profit because it was subsidized with $100,000 in appropriated funds.

What are the DoD guidelines for establishing fees and charges? What is the range of patron savings the Services should be trying to achieve — 10%, 50%?

General Chavarrie: We do not have guidelines or policies regarding fee setting, because we believe local commanders are in the best position to establish their own fees and charges. Comparisons with private sector fees are difficult because competitive forces greatly affect fee setting in the private sector. Prices vary greatly across the country. Military installations also vary widely by size, composition of the base population, and location. Bowling is a popular sport in which the entire family can participate. Eighty cents per line may be too low for open bowling, but too high for family nights. I am not in the best position to determine fees, or hours of operations, or dress codes. These operational matters are best left to the people on site unless there is some compelling rationale for a uniform policy, as is the case with regard to alcoholic beverage control.

Question: It seems that profit generators like bowling and golf should be self-sufficient in most cases and not need appropriate fund support. By allowing appropriated fund support we encourage uneconomical fee structures.

What is the rationale for allowing the use of appropriated funds in resale operations like bowling and golf?

General Chavarrie: We currently authorize all MWR activities a basic level of appropriated fund support. This seems to be appropriate when the entire MWR program is viewed in toto or by category. If selected activities, such as bowling or golf, are authorized less appropriated fund support, adjustments in funding authorizations may be necessary in other activities which are currently users of nonappropriated funds generated by golf courses and bowling centers.

Question: Your statement mentions the OSD instruction that requires inventorying and prioritizing of MWR activities and developing long-range plans. We have seen many installations that either did not have a 5-year plan, or it was just a very elementary construction schedule. We have not found many plans that determined MWR needs, developed a program to meet those needs, and then determined what facilities are needed to house the programs.

For the most part, your regulations seem adequate but the implementation at the base level seems woefully inadequate. How can you bridge the gap between your regulations and their implementation? Can you use the DoDIG for this purpose?

General Chavarrie: Yes, we can use the DoD Inspector General. But we believe the instances you have noted stem from lack of emphasis, expertise, and training at the local level. The Services have implemented DoD policy in their headquarters regulations, but for one reason or another, master planning at some installations is lacking. Inspector General reports can add emphasis, but the Services Headquarters' planning and engineering staffs must provide the expertise and training. At this point in time, effort should be in the latter area — assisting local commanders with their plans.

Question: OSD does not set a strict policy on what the fees should be at MWR facilities.

While visiting installations from the different Services we find some major commands have strict guidelines for the fees being charged while other installations and major commands don't have any guidelines. We very often find that the fees at resale activities are anywhere from 50 to 75 percent below what they would be at the commercial activities.

Don't you think that we should have some type of standard policy, DoD-wide as to what the fees should be? Do you believe that the savings we should be trying to achieve at MWR resale activities should be in the same range as the savings that we're now giving the patrons at commissaries?

General Chavarrie: While overall savings might be in the same range as commissary savings, I do not see charging service personnel or their families for physical fitness activities simply because municipalities, colleges, and commercial health spas have established fees. In some locations and for certain activities a fee comparable to commercial prices might be reasonable. At other locations, a lower fee or even no fee may make sense. At any rate, the savings, even for commissaries, is a derivitive calculation, rather than a policy. I do not believe it is either wise or feasible for the Department to try to establish standard policies for fee setting in MWR activities across the board.

Question: Your statement mentions three pending changes to the DoD funding policy concerning playing fields, swimming pools, and arts and craft centers. Please elaborate on your rationale for these changes.

General Chavarrie: Basically we intend to change the funding policy in order to fund construction of playing courts and fields outside the United States with appropriations. This change is in response to guidance received from the MWR Panel and is consistent with our overall policy regarding appropriated funding of athletic and physical fitness activities.

We have been unable over the past five years to program swimming pools in family housing areas and overseas arts and crafts centers in the appropriated funded military construction program. In order to secure these needed faciltiies, we have reluctantly concluded that we will have to use nonappropriated funds.

Question: The Services submit a MWR financial and personnel management report to the Committee each year. We have had a great deal of trouble in analyzing these reports because the data are not presented in a clear, standard manner.

What are you doing to improve the 7000.12 reports?

General Chavarrie: The actions we have taken to improve the 7000.12 report have centered on the standardization of the report content. The summary graphics and the narrative operational analyses have received the most recent emphasis. However, changes to DoD Directive 7000.12, "Financial Management of Morale, Welfare and Recreational Activities," are pending the results of the review of the investment policy for nonappropriated fund instrumentalities, which the Panel requested in April of this year. Another aspect that we have been working on is the automation of the entire reporting process, to include the annual compilation of the Services' inputs which we provide to the House Armed Services Committee and the General Accounting Office.

Question: Your DoD Instruction 1015.6 states that privately owned boats are not entitled to financial support except on a reimbursement basis. Yet, we looked at a number of marinas in the Air Force where fees are kept very low because appropriated funds subsidize the operations.

How do you verify your regulations are being implemented properly and how can we stop the use of appropriated funds to subsidize these privately owned boats?

General Chavarrie: Our regulations are very clear on the matter of privately owned boats, horses, recreational vehicles, and aircraft which are moored, stabled, provided utilities or other support on or by Department of Defense installations. They are not entitled to either appropriated or nonappropriated support except on a reimbursable basis. The Military Service have these same provisions as part of their regulations. Normally, I would ask the applicable Service Headquarters to look into alleged violations at a particular installation. If necessary, I will ask the Department of Defense Inspector General to audit the records to insure that full reimbursement is made for all costs.

Program Oversight

Mr. Daniel: In 1980 the GAO found that some MWR facilities were larger than needed, inadequately planned and/or did not have a documented need. GAO recommended a greater oversight by OSD of the Services' construction programs. How did you implement that recommendation?

Mr. Stone: We implemented the recommendations contained on page 51 and 52 of the report. Specifically we published updated construction criteria. We are insuring correct interpretation and implementation of guidance through visits and reviews of reports. The Services have implemented much improved systems for fund management and project prioritization..

NAF Program Review

Mr. Daniel: In your statement you say the Services should decide how to spend non-appropriated funds and your office does not have a role to play in reviewing this program. However, your office establishes the sizing criteria for facilities, and you say you are working to develop standard facility designs. The Panel has found numerous errors in facility sizing. We have also found errors in the data being submitted. All in all, it seems your office is abdicating its responsibility by not looking at these projects from a construction perspective. Do you agree? What changes in the regulations would be required for your office to assume a more active role in reviewing these programs?

Mr. Stone: We have not abdicated responsibility for the NAF Program. The NAF Program is reviewed extensively by Service major commands and headquarters. Further detailed review by OSD would add time to a process already too long without adding much benefit. OSD is staffed to provide broad policy guidance without micro-management and that is what we do. No changes in regulations would be required for OSD to conduct detailed review of these programs.

Construction Criteria

Mr. Daniel: We noticed that a number of project's justification state they are below the DoD sizing criteria, therefore the project is automatically justified. We do not agree with that, but it probably proves the point that the DoD sizing criteria is more excessive than what is actually needed. You say in your statement that you are revising the DoD sizing criteria. Will the criteria continue to be a "Maximum size allowed" or will you emphasize actual need?

Mr. Stone: The construction criteria manual is being revised to prescribe broad technical criteria and policy guidance for design and construction of safe, functional, durable facilities. Actual need of installation commanders and the service members under their command is paramount. We emphasize need as the primary criteria and will continue to emphasize it. The Criteria Manual must be a guide to help the local users arrive at a reasonable solution and not a cook book which is used as a formula and thereby may lead to over or undersizing.

Fast Food Construction - Lessons Learned

Mr. Daniel: McDonald's and Burger King are building their outlets on installations in less than a year. It used to take the government several years to build these facilities. Have you analyzed how and why these commercial firms can be so responsive? Are there any lessons to be learned from the fast food construction?

Mr. Stone: Commercial fast food firms have several advantages which permit faster construction than we currently achieve with NAF construction. The three primary reasons however, are; 1) their emphasis on timeleness which results in their decentralized ability to plan design and build concurrently, whereas we must plan, start design, budget, and wait for high level project approval before we can start to build; 2) their relatively simple design and construction contracting process geared only to cost and responsiveness, whereas ours is geared to open and fair competition, and a willingness to impose delays in order to protect interests other than those of the customer i.e, small business, CBD Announcements periods, audits; and 3) their willingness and ability to pay for accelerated construction schedules.

The lessons to be learned are: 1) We collectively (Congress and DoD) need to reexamine and perhaps increase the priority given to timeliness in NAF facilities acquisition process; 2) We should decentralize our decision-making authority to the lowest level possible by raising the dollar level for which congressional approval is required; 3) In order to reduce the time required for design and construction, we should; (a) continue to expand the use of standard designs as much as practical; b) Expand the use of turnkey and concurrent design and construction procedures and; c) Roll back CBD announcement time for design and construction contracts to times used prior to 1984.

Construction Criteria Waivers

Mr. Daniel: Your office reviews all requests for waivers to the construction criteria. This includes waivers for NAF Projects. For example, in April 1985 you approved waivers for a craft shop at Dugway Proving Ground and a bowling center at Ft. Buchanan. What do you look for when you review these projects? How many waivers have you rejected in the last two years?

Mr. Stone: We examine the justification and rationale submitted by the requesting Service to verify the request is based on the needs of the installation. Because of the extensive screening performed by the Services and the relatively small number of projects which need waivers, we have not disapproved any requests in the past two years.

Costs of Government Laws and Regulation

Mr. Daniel: The Panel has heard many times over that excessive government regulations cause high project costs and lengthy completion times. You allude to this in your statement when you say you "incur some costs not found by private firms, such as Davis-Bacon". Has OSD looked at what specific government laws or regulations force up the cost of construction, either NAF or MILCON? In a similar vein, has the department attempted to determine what regulations cause the lengthy times that it takes to get projects built?

Mr. Stone: There are two aspects of the procurement process, the compliance and reporting requirements that add cost and time. Listed below are the MILCON contract clauses impacting on these two areas and which to our knowledge would not to apply to typical private construction contracts. These clauses are also included in NAF construction contracts. This list provides a breakdown by categories, clause title and origin of the requirement (Statute, Regulation or Executive Order). A majority of the clauses are required by statute.

Clause	Statute	Regulation	Exec Order
A. Social Action Clauses			
1. Equal Opportunity	X		X
2. Utilization of Women-owned Business Concerns	X	X	
3. Utilization of Small Business and Small Disadvantaged Business Concerns	X	X	
4. Clean Air and Water	X		
5. Subcontracting Plan for Small Business and Small Disadvantaged Business Concerns	X	X	
6. Local Affirmative Action Plan		X	
7. Environmental Litigation	X		
8. Affirmative Action for Handicapped Workers	X		
9. Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era	X		
10. Convict Labor	X		X
B. Cost Control and Accountability Clauses			
1. Examination of Records by Comptroller General	X		
2. Price Reduction for Defective Cost and Pricing Data - Price Adjustments	X		
3. Audit by Department of Defense		X	
4. Subcontractor Cost and Pricing Data - Price Adjustments	X		

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Clause	Statute	Regulation	Exec Order
5. Cost Accounting Standards	X		
6. Administration of Cost Accounting Standards		X	
7. Assignment of Claims	X		
C. Business Protective Clauses			
1. Buy American Act	X		
2. Preference for Domestic Specialty Metals	X		
3. Jewel Bearings	X		
4. Preference for United States - Flag Vessels	X		
5. Preference for United States - Flag Air Carriers	X		
D. Labor Statute Clauses			
1. Subcontracts		X	
2. Davis-Bacon Act	X		
3. Apprentices and Trainees		X	
4. Payrolls and Basic Records		X	
5. Compliance with Copeland Regulations	X		
6. Withholding of Funds	X		

In order to prepare a bid the contractor must: 1) determine the requirement; 2) obtain adequate resources to assure compliance with the requirement; and 3) assure that his/her management system is able to document compliance with the requirement for the Government. There are costs associated with these three steps. However, the exact percentage of the associated costs cannot be estimated due to the nature of the procurement process which requires that "purchase of and contracts for property or services ...shall be made by formal advertising" (10 usc 2304(a)). That is, the Government must accept the lowest lump-sum price bid and thus, is, not privy to a contractor's cost estimating allocations prior to bid opening. The items generating these additional costs however can be identified. For example, Category A Clause titled "Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era," which applies if the contract will be in excess of $10,000, requires the following actions by the contractor:

(a) initiate affirmative action to employ, advance or otherwise treat qualified veterans without discrimination.
(b) list all suitable employment openings at local offices of the state employment service system
(c) report such employment openings and hires to such local offices
(d) post in conspicuous places notices stating the contractor's obligation under the law
(e) notify each labor union or representative of workers with which it has collective bargaining of his obligation under this clause
(f) include the provisions of this clause in all subcontracts or purchase order of $10,000 or more.

Thus, the prospective bidder as a minimum must:

(a) assign an individual to perform the various tasks.
(b) incur publication expenses to meet public listing requirement
(c) establish in-house documentation procedures to meet requirements for reporting his obligations and to rebut charges of non-compliance should they occur.

Similar actions and associated costs also apply, albeit not necessarily in the same magnitude, to all the clauses listed under Category A. Category B, Cost Control Clauses and Accountability, are

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directed at controlling the costs associated with the contract and assuring that the Government can properly account for the expenditure of public funds. The means by which the Government achieves these two goals can be illustrated by the following example. The Cost Accounting Standards clause, applicable to all negotiated procurements, in excess of $100,000 (AE contracts and construction charge orders) requires the contractor to take the following actions:

(a) submit a Disclosure Statement disclosing his cost accounting practices
(b) follow consistently the cost accounting practices disclosed
(c) comply with all Cost Accounting Standards in effect on the date of award
(d) allow any authorized representative of the agency, the Cost Accounting Standards Board or Comptroller General of the United States to examine and make copies of papers relating to that compliance
(e) include the substance of this clause in all negotiated subcontracts into which he enters.

Thus, a contractor awarded a construction contract by the formal advertising method of procurement who is confronted with a change order in excess of $100,000 must as a minimum take the following actions:

(a) determine the requirements of the Cost Accounting Standards and compare his accounting procedures
(b) restructure his accounting procedure, if required, since the Cost Accounting Standards do not recognize bad debts, entertainment expenses and advertising costs as allowable overhead items
(c) establish an accounting control system which documents his compliance with the Cost Accounting Standards
(d) make his accounting system available for inspection by the Government.

The prospective bidder or proposer must therefore apply additional resources (labor and time) to assure compliance with this requirement over and above his normal allocation of resources to the accounting function. The purpose of the Category C Clauses is obvious. They are intended to assure that American firms are favored over foreign sources. Contractors must, therefore, institute procedures to assure that raw materials products or equipment meet the requirements specified. Category D. Clauses, which are directed at the labor effort in construction contracts, require the contractor to perform various actions. As an example, the Davis-Bacon Act, which applies to all construction ovet $2,000, and its implementing Department of Labor regulations require the following:

(a) Prepare and submit a payroll for each week of work. (Subcontractors must also submit payrolls each week).
(b) Prepare and submit certification each week that employees have been properly classified and paid. (Subcontractors must also submit).
(c) Submit certification that all labor provisions have been incorporated in each subcontract and sub-subcontract, etc.
(d) Submit certificates if Apprentices and Trainees are employed that establish they are registered with the Department of Labor.
(e) Allow employees to be interviewed by the Government on the contractors' time during the work day, in order for the Government to determine if employees are properly paid and classified.

Government employees must verify compliance with these action items and the contractor must therefore initiate adequate recordkeeping procedures to assure compliance. Lastly, there is another category of clauses which deal with Work Control. This category of clauses is present in almost all contracts. In the private sector the contractor performs these functions for his own ends. In Government construction contracting, however, these functions are performed for the benefit of the Government and require a more rigid set of procedures. These clauses are:

Work Control Clauses	Report	Approval Required
1. Progress Charts and Requirements for Overtime Work	x	x
2. Contractor Quality Control	X	
3. Proposed Material Submittals Required by Contractor	x	x
4. Catalog Data	x	x
5. Samples	x	x
6. Contractor's Daily Report	x	
7. Work Outside Regular Hours	x	
8. Contractor's Inspection System	x	

These clauses are directed at assuring that the work progresses in an orderly and manageable way. The contractor is required to submit and report the various items as the work progress either for approval or informational purposes. The Government then provides approval or disapproval of the submittal or report and also utilizes this information to verify that the contractor is in fact performing what is required. Throughout this discussion we have been describing the impact of the various clauses in terms of how the contractor must respond to the requirements. Conversely, the Government must assure compliance with all the contract clauses. The method used to achieve this is the inspection process. This process of inspection once again impacts on the contractor as he must allocate time and resources, normally utilized on other tasks, to assist with and respond to inspections.

There are a variety of contract requirements, or statutory burdens, that apply to Government construction contracts but not to those in the private sector. Although the cost of some of the statutory requirements, such as Davis-Bacon, has been studied individually, there has been no comprehensive study to determine the cost of all the requirements. We estimate the Davis-Bacon Act adds 4 percent to the cost of construction in the United States. The cost of all the statutory requirements should certainly exceed that amount. The number and complexity of the clauses has one other cost impact that is higher prices due to reduced competition because some contractors decide not to endure the hassle of bidding on government contracts.

Time The time added to government contracts by these provisions is also very difficult to estimate. Jobs are sometimes delayed because the contractor has not complied the clauses. However, there is a part of the facilities acquisition process in which the time required to comply with laws and regulations can be quantified. That is in the procurement of AE services for facilities design. The times in the chart are average expected times for an individual AE contract costing between $200,000 and $500,000. Larger contracts take more time, smaller contracts take less time.

Activity	Normal Time (days)	Maximum Time (days)
Design authorization received	0	0
Prepare CBD announcement	2	7
Announcement in transit and being prepared for publication	7	10

Activity	Normal Time (days)	Maximum Time (days)
AE responds to announcement	30	40 1/
Preselection	3	6
Selection	4	8
Slate approval	2	3
Selection approval	14	20
Prepare request for proposal	3	5
Prepare fee proposal	14	15
Audit	30	120 2/
Negotiate	4	8
Prepare contract package	10	16
Notice to proceed	2	4
Start design	0	0
Total	125	262

Notes: 1/ The competition in contracting act extended the minimum CBD announcement from 14 to 30 days.

2/ Audits of negotiated contracts below $500,000 are not required by the Competition in Contracting Act, however, recently a requirement for audits by the Defense Contract Audit Agency for all negotiated contracts or charge orders in excess of $100,000 was added to the DoD supplement to the Federal Acquisition Regulation. When this limit existed 3 years ago the time to complete audits exceeded 120 days in many areas of the country.

Excessive Construction Time

Mr. Daniel: The cost and the time to construct many MWR projects appears to be very excessive when you consider that we are building basic business-type activities--bowling alleys, golf courses and clubs. Do you have any initiatives underway to determine why it takes so long to build these types of facilities or ways to reduce the cost for these facilities?

Mr. Stone: We agree that the department takes too long to acquire facilities. Much of the time delay occurs before we even start construction. Our funding approval process take much longer than a civilian organization. The normal time required to obtain project and funding approval from the time the project is submitted by an Installation Commander is 2.5 years. This varies somewhat depending on Service approval procedures. The following activities are included: The Project is reviewed by the major command and service headquarters and approved for design. An AE is hired and 35% design is completed. The estimate is submitted to Service Headquarters and sent to Congress concurrent with final design authorization with the goal of having the project ready to advertise by the time it is released by the panel. The actual construction takes only 1 to 1.5 years depending on the size of the project, which is only a little longer than the private sector. We are working on some initiatives to shorten the overall process. One procedure which has promise is the approach used by the Army to obtain housing at Fort Ord. The Army leased a plot of land on Fort Ord to a contractor who constructed a mobile home park. He rents the pads with a double wide mobile home which includes washer and dryer (furniture can also be rented). The cost to service members is within the housing allowances of junior NCO's. The time required from proposal to the opening of the first 50 units was 9 months. We would like to construct more commissaries using turnkey construction methods. This reduces design time and construction change order costs but it does

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not significantly reduce the time required for approval. With the authority we requested in the FY 86 MILCON bill to execute long term contracts, we can also take advantage of the ability of the private sector to build quickly. The Services are also looking for ways to shorten the system.

Commissary Criteria

Mr. Daniel: DoD has proposed eliminating a formal criteria for sizing commissaries. What effect will this have? How will the Services size their new stores?

Mr. Stone: The elimination of the commissary size criteria table will have no real effect. Each Service has differing commissary operation and management systems and therefore, has developed detailed criteria tailored to its own functional requirements. These are embodied in standard design models. The service criteria are much more definite and responsive to the operational and management system than any general DoD criteria which would have to be developed with enough flexibility to permit each Service to build commissaries tailored to its requirements. Services will continue to size their stores using sales volume, proximity of suppliers and other site specific factors.

Criteria Based on Need

Mr. Daniel: The DoD criteria for golf courses, clubs, bowling centers, music centers arts & crafts, hobby shops and theaters is based on military population, not actual demand for the facility. For example, you may have 10,000 troops assigned to a base in a metropolitan area but only 500 live on the post, and of these only 100 may be bowlers. According to the criteria manual the base could build a 30 lane bowling center based on the 10,000 troops assigned. Shouldn't we size the facility to meet the actual bowling demand at the base? Why is not that the criteria?

Mr. Stone: The criteria manual lists space allowances. However, the manual also requires the services,(within the parameters of our criteria) to develop their own criteria to meet their respective needs; taking into consideration such things as off-base facilities, cost, existing on-base facilities, patron survey results, utilization, and mission needs. It is not feasible for OSD to publish detailed criteria suitable for all needs at all locations. The DoD/Service system now in use does that and we intend to increase the weight given to the installations' specific needs, even when they exceed OSD criteria.

Third-Party Financing

Mr. Daniel: In your statement you talk about third-party financing for facilities. Please explain how this would work for non-revenue producing activities such as a youth center, a skill development center or even the chapels you mention.

Mr. Stone: There are two ways third-party financing could work for non-revenue producing activities. First, given authority to obligate the Government for long-term periods, we would enter into a long-term contract, and we would reimburse the private party with future annual operation and maintenance appropriations. Second, we could arrange for non-revenue producing facilities to be coupled with revenue producing facilities. The net revenue from such an agreement would be less because of the need to offset the cost of the non-revenue producing facility. Fortunately, for both approaches the availability of Government land and the presence of ready market created by the assigned military personnel and their dependents.

Specific Criteria

Mr. Daniel: We have a number of other questions about the criteria that is the basis for sizing many facilities.

--COMMISSARIES. What is the rationale for not reducing store size when operating hours are increased? How does the criteria adjust warehouse size if the local distribution system is highly responsive?

--EXCHANGES. The space criteria is based on military strength. How do you prevent double counting among installations in metropolitan areas: How does the exchange translate the military strength into store size? In the U.S. it appears AAFES is using sales volume instead of number of customers for store sizing. Which is a more valid approach?

--PACKAGE LIQUOR STORES. The Army is combining package stores with centralized warehouses. How does the criteria apply to these dual facilities?

Mr. Stone: COMMISSARIES - Stores are sized for sales volume and operating hours available within personnel and funding limitations. Operating hours are increased at existing commissaries to relieve crowded conditions. The daily sales of a commissary exceeds the weekly sales of most commercial supermarkets -- the shelves are virtually emptied each day. The shelves are then restocked during the hours when the store is closed. This is efficient, cost effective and least disruptive to the customer. Since the restocking is done only at night, the store must hold a full day's sales. Staying open longer does not appreciably reduce the display space needed. The responsiveness of the distribution system has a significant impact on the sizing of backup areas. At the same time, however, construction sizing must allow a reasonable degree of flexibility for industry changes. For example, frequent distribution is currently economic and workable; however, the number of deliveries would be reduced if the Nation were to experience a fuel shortage such as seen in the late 70's.

EXCHANGES - Double counting among installations is prevented since the strength data used is certified by each installation command as being assigned to that installation and a military member can be assigned to only one installation. Military strength and the other applicable factors are translated into a tentative store size by using the procedures in Chapter 3.7.11, DoD 4270.1M as an initial determination of size. This tentative size is validated by a comprehensive space analysis which considers such things as sales potential, productivity of space and past experiences with main stores, which are considered to be adequately sized and which have actual sales close to the projected sales at the installation in question. The final size decision is based on this validation process, which includes both population and sales volume as factors.

PACKAGE LIQUOR STORE/CENTRAL WAREHOUSE - The size of the store would be guided by the information in the Criteria Manual. For the central warehouse the Manual provides that where DoD space criteria is not available, accepted design and experience factors are used to determine space allocations for the facility.

Question: General Chavarrie mentions in his statement that the DoD guidance emphasizes the need for multi-purpose facilities versus separate buildings for each activity.

The policy also recommends that each base develop a 5-year plan. I guess the logic behind that is that if you have a 5-year plan then you would know what you need to build within the next few years and perhaps you could come up with more multi-purpose facilities.

We have not seen many multipurpose facilities in the programs being submitted to the Panel. We are also finding very poor 5-year plans at the bases that we are visiting, and in some cases no plan at all.

What can you, at the OSD level, do to ensure that the Services are developing better 5-year plans and utilizing more multi-purpose facilities?

Mr. Stone: In addition to the policy referenced in General Chavarrie's statement, which has been in the DoD Directive dealing with funding of MWR programs sinch March 1978, the 1985 Defense Guidance says: "Multi-Service or multi-purpose facilities for community support needs should be included in installation master plans and programmed for construction." Basically, this is the same language used by the Panel in letters from the Chairman to the Services concerning the FY85 and FY86 NAF Construction Reports.

General Chavarrie: Master planning is an installation function, and the Military Services will have to put more discipline into compliance with DoD and Service policy. Most of the construction projects identified as multi-purpose facilities have been for small installations or new bases, such as Kings Bay, Georgia. At larger installations, we are faced with an inventory of largely single-purpose facilities. The tendency has been to replace these facilities, one at a time, with other single-purpose facilities. However, we know of one gymnasium at Fort Jackson that has been converted to a multi-purpose family fitness center and another project at Minot Air Force Base which effectively bridged the existing free-standing gymnasium and pool into a single multi-purpose structure. I suspect there are other cases where the Services are accomplishing the objective without labeling the projects as such. This is not to say, however, that we don't need new modern, multi-purpose facilities. We do. And we will simply have to put even more emphasis on master planning for these projects.

Problem Obtaining Appropriated Funds

Mr. Daniel: The current programs, as submitted by the Services, include a number of projects that could be funded with appropriated funds instead of NAF monies according to DoD Guidance. These include projects at Fort Drum and a number of projects at overseas locations.

Your statements allude to problems in getting approval for appropriated funds for some projects. Can you elaborate on these problems and explain why we are using the soldiers own funds in these cases when, in fact, the taxpayers should be funding these projects?

Mr. Stone: The problem of obtaining appropriated funds for community facilities at new or expanded mission sites is best illustrated by our experience concerning the commissary for Comiso, Italy. In FY 1983 we requested appropriated funds for that project, but they were denied. We tried again in FY 1984, and again they were denied. Since it appeared that the project would never receive appropriated funds, and since time was running out, the commissary was built with nonappropriated funds in FY 1985. The commissary was just one of five projects denied twice for Comiso between FY 1983 and FY 1986. There were three for Greenham Common, United Kingdom, during the same time frame.

In the case of Fort Drum, the Corps of Engineers requested Congressional authorization for the design for this commissary and PX, to see if using appropriated funds for those facilities would be viewed favorably. They were informed that should they proceed with a formal request they would be formally denied. Therefore, they withdrew the request and proceeded to fund those projects with nonappropriated funds.

The Service experience with denial of appropriated funding for community facilities at new mission sites has discouraged them from programming for such facilities in their MILCON programs. When they request funding according to our policy and are denied, they lose not only the requested project but also the less controversial project they could have substituted for it. For that reason, the Services are choosing to guarantee funding for their community projects by using nonappropriated funds.

Question: Congress has set a ceiling of 247 commissary stores in CONUS. Yet, we hear of plans by the Navy to open new homeports at Everett, Washington, Staten Island, New York, and several gulf locations.

These locations are not included in the 247 total. How will these new locations decisions affect the 247 ceiling?

General Chavarrie: The 247 ceiling was originally established by the FY84 Defense Appropriations Act and was continued in the FY85 Defense Appropriations Act. At the time the Congress was initially considering the ceiling for commissaries in the 48 contiguous states, the Department was asked to provide the number of commissaries operating at that time plus any known programmed changes based upon mission requirements. The 247 ceiling allowed manageable leeway for the known mission changes at that time. The DoD policy is that the Assistant Secretary of Defense (FM&P) must approve any commissary prior to establishment. In turn, my office has been assigned the responsibility to ensure the number of stores does not exceed the Congressional ceiling. The DoD Commissary Executive Board is used to ensure that DoD requirements are coordinated within the four Service systems to ensure the needs are met equitably.

In FY85 we operated 236 commissaries in the contiguous states. This included a commissary for the new Strategic Training Range Site at Powell, Wyoming. The following lists the number of commissaries in the 48 contiguous states projected through FY88:

	Army	Navy	Air Force	Marine Corps	DoD Total
FY85	73	57	93	13	236
FY86		Imperial Bch, CA	Havre, MT Dickinson, ND Forsyth, MT		
	73	58	96	13	240
FY87			Bangor, ME Conrad, MT LaJunta, CO Belle Fourche, SD		
	73	58	100	13	244
FY88		Ft Wadsworth, NY (Staten Is) Everett, WA Mitchell Field, WI *	Wilder, ID Makah, WA * Ft Fisher, NC * Pt Austin, MI * Calumet, MI *		
	73	59	97	13	242

* Close

While we have not been advised of the final Navy homeport station in the Gulf area, NAVRESSO has indicated the anticipated location has an existing commissary operation. While enlargement or modification will be required, it is not anticipated that an additional commissary will be established and, if so, we are still within the 247 ceiling. Obviously since the ceiling only included known requirements, any unforeseen future needs would require deliberation/coordination by the DoD Commissary Executive Board and subsequent approval by ASD(FM&P). Any new requirement would be reviewed on a case-by-case and priority of need basis, to include any needs to disestablish existing locations. You may be assured that should any additional requirements be identified in the future, ~~that~~ every possible effort will be made within DoD prior to our requesting any relief from the Congressional ceiling.

Question: With their extensive facility backlogs, do you feel the Services should be allowed to expand into new areas like health spas or hotels?

General Chavarrie: As I indicated in my prepared statement, we need to do more in terms of providing multi-purpose recreational facilities, akin to those available in the municipal, collegiate, and private sectors. Health spa may not be an appropriate term, because it is usually used in a commercial context. However, the concept of a physical fitness facility, to include a gym, pool, playing courts, lounge, snack bar, recreational and instructional rooms, and so forth is the kind of facility we need.

I do not foresee any notable expansion of recreational overnight accommodations as part of the MWR program. There is, however, a need for more temporary housing for military personnel and their families in transit. I believe that third party contracts, addressed by Mr. Stone, offer potential to meet these housing needs.

Question: You mention the Army study of its distribution system. The results of that study have implications for all the Services. For example, if the Army wanted to set up a distribution center in the D.C. area it probably should service all local stores regardless of service.

Why isn't this a joint service study? When is the Commissary Executive Board going to become involved in the study?

General Chavarrie: We agree that there may be a joint application of the centralized distribution concept. As mentioned in my testimony, we do have several studies underway in DoD to review our commissary distribution system. The Army initiated their study in 1984 to review their internal distribution system. The original proposal included an option to study the distribution to Army commissaries in Europe. Following release of this Panel's report on "Factors that Increase Prices and Reduce Availability of Grocery Products in European Commissaries," the DoD Commissary Executive Board recommended that the Defense Personnel Support Center on behalf of the Board contract for a study of distribution to all commissaries in Europe. Based upon this decision the European option on the Army contract was not exercised. The Navy and Marine Corps currently operate a centralized distribution system for their respective stores. At the same time the Air Force has been conducting a test of frequent distribution at several of their stores. The DoD Commissary Executive Board has followed the status of each of these studies. As a result of preliminary reports on the Army study and each of the other reviews, the board has agreed that the centralized distribution concept may have joint service application. At the next board meeting on November 14 and 15, 1985, we will visit the Marine Corps Distribution Center at El

Toro and review the concept. We intend to convene a joint study group to address the concept in detail and develop a test plan for a joint system. We will review the status of this study group on a quarterly basis, but anticipate a test plan by mid CY 1986.

Question: Your statement summarizes some of the problems we have with clubs. The Panel has tried to get the Services to address some of these problems for several years, but the resistance is incredible! For example, the Panel has discussed the issue of some clubs being subsidized by disproportionate amounts of appropriated funds with the Army for four years. The Army has not been able to resolve this problem with its smallest clubs, yet alone the larger clubs.

Can you offer any advice as to how we can get resolution of some of these problems?

General Chavarrie: We acknowledge some resistance to change. Appropriated fund support, relative to the market served, is one of many aspects of club operations that we hope to have thoroughly analyzed by an independent team of experts, both from within and outside the Department of Defense, under my direction.

The support of the Panel for such an independent review, and for subsequent changes they might recommend, would materially assist in resolving some of our long-standing problems.

Question: Your testimony contains a good analysis of the self-sufficiency concept and its ramifications. The concept does lead to increased use of O&M funds and competition with off-base commercial activities.

What recommendations do you have to limit either the use of appropriated funds and/or the competition with off-base commercial businesses?

General Chavarrie: We believe that both the increase in appropriated fund support and competition with off-base commercial businesses can be reduced through a well developed and detailed strategic planning approach which will encompass all MWR activities. To do this we must first eliminate intra-base competition among MWR activities. The competitive front for these activities must be based on a coordinated and complementary master marketing plan. Essentially, this will require the viewing and defining of each activity in terms of its specific target audience and the specific types of products and services to be offered. Each activity must be considered as a separate and distinct piece of the overall MWR effort, and yet a complementary element to the well defined whole.

When the whole of inter- and intra-base programs are complementary as opposed to competitive, the activities can concentrate on perfecting their market offerings. They can concentrate on perfecting the quality of the array of products and services offered to a well-defined target market. Under this concept the mix of activities would become tailored, streamlined, and more efficient and effective — thus more profitable and less reliant on appropriated fund support.

The defining of each component of the business, the products to be offered in hopes of satisfying the needs of an identified market segment, is basic strategic business planning in the corporate world. Now, as to the specific mechanism for accomplishing this within DoD, we are currently exploring several different approaches, to include bringing in expert advisors to assist us in the development of a corporate strategy. Also, this subject will be top priority on my list of discussion items for the next meeting of the DoD Morale, Welfare and Recreation Coordinating Committee.

Question: Your testimony recommends that we proceed cautiously with club construction. Should we postpone all projects until the future becomes clearer? Please expand on this recommendation.

General Chavarrie: I would not postpone all projects, but I would certainly be very selective in renovating, replacing, or building new club facilities for the next two or three years. During this period, my office will review planned club construction projects for all Services prior to their being reported to the Congress on the NAF Construction Report.

Central Planning

Mr. Daniel: In your statement you mention nonappropriated fund should be spent as the Services choose. You point out that projects are reviewed three times within each Service after they have been selected by the installation commander who is in the best position to decide which facility is needed on his installation. You also said you do not believe people in Washington can help make that decision, and you don't think they should.

In commenting on the GAO report concerning military construction that was issued in 1980, DoD officials agreed there was a need for more central planning. It seems your views contradict those made by DoD officials just a few years ago.

What has occurred since the GAO report was issued to change your opinion, and other DoD officials, on this issue?

Mr. Stone: In the last few years evidence has surfaced showing that the best American corporations are succeeding because of a new management philosophy. Those corporations provide their managers with freedom to innovate, and incentives to excel. They also discourage centralization by pushing responsiblity and authority down to the lowest possible levels. The result is excellence in the products and services they provide.

We believe our customers -- the soldiers, sailors, marines, and airmen who defend America -- deserve excellent facilities and services, and we have decided to manage for excellence the same way the better corporations do.

Selling DoD Policy

Mr. Daniel: You mention in your statement that DoD policy allows appropriated funds to be used for all community facility construction related to new missions or relocations, but you have been unable to convince the Subcommittees dealing with military construction to fund them.

Can you explain what your office has done to implement or sell this policy? Do you feel that the members and staffs of the other Committees understand how nonappropriated funds are generated? Please identify those hearings where a discussion of nonappropriated funds was held within the last 4 or 5 years.

Mr. Stone: We have stressed improving the quality-of-life for our people overseas at the Military Construction Overview hearings in each of the past four years. At all four FY 1986 military construction hearings Dr. Korb, the Assistant Secretary of Defense (Manpower, Installations and Logistics) discussed the need for community facilities both overseas and at remote locations within the United States.

Question: When discussing funding of NAF construction you state that the Department must insure that it does not bite off more than it can chew. In discussing overnight facilities, where the purpose of the facility is to billet temporary duty personnel, or guests, you believe appropriated and private sector funds should be used. However, you also plan to change your funding policy so that NAF could be used to construct swimming pools in family housing areas, and arts and crafts centers and automotive self-help garages outside the United States.

I do not understand the rationale for this change since the greatest need seems to be for temporary lodging facilities for PCS personnel.

Could you explain more fully why these changes are being made?

General Chavarrie: The changes we plan to make regarding swimming pools in family housing areas and arts and crafts centers outside the United States are simply because of our inability over the past five years to get them programmed for appropriated funding.

Housing is indeed of great priority. It is a basic mission of the Department — whether it be single person or family housing, temporary or permanent. It is just not a MWR activity or a responsibility appropriately funded from nonappropriated funds.

Question: When discussing commissaries in your statement you point out that while it has been suggested that a percentage of surcharge revenue be consolidated in a central pool for use by each Service on a need basis, you do not believe this would be in the best interest of efficiency and economy of the overall system. You indicate that to do so would distort comparisons of overhead efficiency comparisons and diminish the effect of competition between Services.

Would you please explain your position more fully because the reasons given do not adequately explain why you are against this proposal.

General Chavarrie: Yes, I would be happy to explain. As I have stated, in a "macro" sense we operate commissaries because they offer an excellent and economic means of compensating and contributing to the morale of our people. Our corporate "profit" is the retention of a professional ready force. To achieve an equitable return for the investment, we must operate commissaries as an efficient supermarket business enterprise in the "micro" sense. The overhead expenses of operating commissaries are funded from two sources of "income" -- appropriated funds and surcharge revenues. We measure the efficiency of each of our four service commissary systems by the overhead to sales ratio (as a percentage) of each of the respective systems.

Facility costs (construction and maintenance) are an overhead expense in the commissary business just as in the private supermarket business. Based upon guidance from this Panel, the surcharge rate has been standardized at 5% for all commissaries. Therefore, the only variable "income" to pay overhead costs is the appropriated funds account. Since 1976, commissary construction has been funded entirely from surcharge revenues. Again, surcharge revenues as a percentage of sales is a fixed "asset." Therefore, each Service currently has a proportionate share of revenues for construction. The private industry accounting principal of depreciation of facilities assets has an obvious application in the construction issue. To efficiently stay ahead of the game in a business sense, we must manage depreciation of facilities systematically. In other words, to maintain a going concern we must have a program to systematically replace, modernize and repair assets. Considering proportionately equal revenues, the concept of pooling automatically assumes weak management or distinct problem with one of the Service's construction programs. The concept of pooling a portion of surcharge assets in reality will only subsidize the one Service system with the least efficient facilities. The funds diverted to get one Service well will defer systematic businesslike upkeep, maintenance and replacement construction of the other Services who are considered "healthy." This business neglect will mean that in the future we would have to redirect the pool to getting another Service well. This is a "putting out fires" approach to management and reduces the incentive to manage construction in a businesslike manner.

The DoD Commissary Board agrees that the Army does have a significant commissary construction backlog; however, pooling will only eventually transfer the problem to another Service or all Services. The Board is actively addressing the construction issue; however, to resolve the problem efficiently, we must first define the future operational concept (i.e., the centralized distribution input on facilities). In the March 1984 hearings before the Readiness Subcommittee, the Department demonstrated that commissaries are "going concerns" in a business sense. The current board actions to corporately address the construction problem and develop a joint operational plan for the future are systematic refinement actions to ensure we continue to operate our commissaries as efficiently as possible.

Question: The DoD MWR Coordinating Committee appears to us to be very limited in what it can accomplish because of its membership composition. It appears that each of the Services pretty much sets its own policies as far as MWR goes. For example, when we discovered several years ago that the Air Force was using many more appropriated dollars to maintain its golf courses, it wasn't the MWR Coordinating Committee that tried to resolve that problem. Instead, the Air Force came up with its own policy and now has a different policy than the Army, Navy and Marine Corps. Don't you think that if we had an MWR Executive Board composed of the leaders from each of the Services that it would be a vehicle to resolve these kinds of problems and to set standard DoD-wide policies in the MWR world?

General Chavarrie: The DoD MWR Coordinating Committee discusses and recommends policy — it does not establish or enforce policy. Department of Defense policy is prescribed by DoD Directives, Instructions, and Regulations, which are uniformly applicable to all Military Services and Defense Agencies. There is, however, some room for differing applications among the Services, and that seems to be the case with golf course maintenance. If we need to change our regulations in this respect to make them more specific, I will not hesitate to do so.

Question: You have set policies for allowing appropriated fund personnel in a number of MWR facilities — these people are there supposedly for command and control functions. We find that now we have appropriated fund personnel working in outdoor recreation areas and bowling alleys. Do these people really have a role when it comes to a command and control function in a wartime environment, or are we just shifting some of the costs for these facilities and personnel over to the taxpayer? What is the rationale for doing that?

General Chavarrie: Assignment of appropriated-funded personnel to MWR facilities is governed by Department of Defense Directive 1015.4. In addition to command and control functions, appropriated-funded personnel may be used to perform "direct operational and day-to-day functions...(where) (1) Technical or professional education or experience is required, (2) Accountability of appropriated-funded resources is required, or (3) It is necessary to ensure that responsible commanders have adequate support to meet their assigned responsibilities for protecting the interests of the Federal Government." Appropriated-funded personnel may be assigned as managers of outdoor recreation areas and bowling centers in accordance with these criteria.

Mr. Daniel. Our next witness represents the Army. Mr. Paul Johnson, Deputy Assistant Secretary for Installations and Housing, and Gen. Robert M. Joyce, Maj. Gen. Robert M. Joyce, Commander, Community and Family Support Center, and Brig. Gen. James S. Hayes, Commander, Troop Support Agency.

Gentlemen, we welcome you to our hearing this morning. You may proceed as you desire.

STATEMENT OF PAUL JOHNSON, DEPUTY ASSISTANT SECRETARY, INSTALLATIONS AND HOUSING, DEPARTMENT OF ARMY

Mr. Johnson. Thank you very much, Mr. Chairman.

I am Paul Johnson, Deputy Assistant Secretary of the Army for Installations and Housing, a job that I have held about 12 years.

Basically, I have oversight responsibility for all installations and facilities in the Army, including real estate matters, base realignments, installation master planning, construction facilities, the rate of base operations and maintenance activities.

To fulfill these responsibilities, I have a rather small staff, and we operate by providing policy and broad guidelines to the Army staff and management details on an individual program on a selected basis.

As you have already heard this morning, that the MWR program has grown extensively since the Vietnam era, and before that, we had a very small oversight in the Secretary, very modest, but we have been, as a result of this committee's insistence, doing more and more in the oversight area, we appreciate your efforts in attempting to provide us with the guidance that we have been needing.

My office gets involved early on in the NAF projects. For the past couple of years, we have been reviewing all MWR projects prior to releasing them for design, and that is a very, very delicate point in the process, design release.

We look at each project to identify potential changes in the installation's strength for status. We attempt to assess the overall needs of the projects to ascertain scope, cost and reasonableness.

My office also has some direct input into the prioritization of the MWR projects. The Army is the executive agent for the development of DOD construction criteria, and the criteria proposals and acceptance thereto are likewise handled by my office.

Now, despite the growth and the size of the Army's NAF Program, I am aware that we have a long way to go. As a matter of fact, the backlog of the MWR facilities is about $2 billion, and with the present projected funding levels, we are expected to reduce this, but it is going to take a very long time to eliminate it.

That is kind of a bleak picture. It is even worse for the commissaries. Now, there is—since they are so short of funds in the MWR and need so many facilities—there are other ways they look to try to get funds for this important program.

So, they look to the MCA program for that, and a number on this panel are on our committees that we appear before, both on the Senate and House Armed Services Committees in Congress.

Now, our backlog is $26 billion presently, and if the amount of money we get through the appropriations, we can never get there.

We cannot even, we cannot even have our renewal costs, which we base on renewing facilities over a 50-year period.

Therefore, with limited exceptions, and I want to underline the limited exceptions, I cannot be optimistic that the community support-type facilities presently funded by NAF would compete favorably for extremely limited MCA funds against the critical operational housing and other facilities needed by the Army.

As a matter of fact, Mr. Martin alluded to that a bit ago. However, we will continue to pursue a balanced program which will provide for our priority needs, and, of course, one recent development is the Burger Kings. It looks like that is showing a lot of progress and probably can assist in providing additional MWR facilities.

That concludes my overview statement. I want to thank you very much for hearing us and helping us in this important program.

[Statement of Mr. Johnson follows:]

PREPARED STATEMENT OF PAUL W. JOHNSON

Good morning, Mr. Chairman and Members of the Committee.

I am Paul Johnson, the Deputy Assistant Secretary of the Army for Installations and Housing, a job I've held for about twelve years. Basically, I have oversight responsibility for all installations and facilities in the Army including real estate matters, base realignments, installation master planning, construction and facility related base operations and maintenance activities. To fulfill all those responsibilities, I only have a small staff of seven people so we operate mainly by providing policy and broad guidance to the Army Staff and manage the details of individual programs on a selective basis.

Prior to and during the Vietnam era, the NAF Program, particularly for MWR facilities, was quite modest and Secretariat involvement was also modest. However, as I am sure you are aware, all that began to change dramatically in the post Vietnam era. There were large increases in the NAF amounts available for construction, particularly MWR-type facilities. The program has been growing steadily to the point where, for FY 1986, the total NAF Major Construction Program for the Army has grown to over a quarter of a billion dollars. For the future, we are optimistically projecting even further increases.

In response to this growing and extremely important program, Secretariat involvement has also been increasing. This Committee has encouraged and supported such involvement and we sincerely appreciate your help. You have a unique perspective, and we know that you share our deep commitment to provide the best possible facilities for our servicemen and women within our limited resources. Over the years you have raised some very perceptive and penetrating issues. We thank you and realize that continuing critical evaluation will ultimately strengthen the program and provide immeasurable benefit to our soldiers.

My office gets involved early on with most NAF projects. For the past couple of years, we have been reviewing all NWR projects prior to releasing them for design. We look at each project to identify potential changes in the installation's strength or status. We attempt to assess the overall need for the project and to ascertain that the scope and cost are reasonable. For the past year, we have been doing the same thing for each commissary project. My office also has some direct input into the prioritization of NAF projects. We have membership on the Subsistence Review Committee which prioritizes the commissary program and we interface at the working level in the prioritization of MWR facilities. The Army is the executive agent for the development of DOD construction criteria and criteria proposals and exceptions thereto are handled by my office.

Despite the growth and the size of the Army's NAF Program, I am painfully aware that we still have a long way to go. The backlog of MWR facilities is almost $2 billion. With present and projected funding levels, we expect to be able to reduce it but it is going to take a long time to eliminate it. The picture for commissaries is even worse. The present backlog is almost half a billion dollars, and with present revenues, it can't be reduced and will rise steadily.

With such a bleak picture, it is only natural to seek additional funding sources. Military Construction, Army is a source frequently mentioned. The Army's present MCA backlog is a whopping $26 billion and with present budget amounts it will continue to grow. We can't even fund an annual renewal requirement based on a 50-

year life for facilities. Therefore, I cannot be optimistic that the community support type facilities, presently funded by NAF, would compete favorably for the extremely limited MCA funds against the critical operational, housing and other facilities needs of the Army.

One recent development appears to provide a ray of hope for alleviating the NAF problem in a relatively short time. I am referring to the AAFES "Burger King" initiative which opens up the possibility of private financing for facilities construction. From my perspective, that initiative has been, in the main, and overwhelming success. While I don't see third party financing of facilities as an overall panacea, I do believe on a selective basis more initiatives of this type are possible and beneficial. I intend to continue to encourage and support appropriate initiatives along these lines.

That concludes my overview statement, but let me again say thank you to this Committee for your support and pledge my full cooperation with you in the future.

Mr. NICHOLS. Mr. Johnson, I notice at the conclusion of your statement, you also talk about third-party financing. You say that you believe, on a selective basis, more initiatives of this type are possible and beneficial.

Are you familiar with the so-called hotel proposals that have been discussed here this morning?

Mr. JOHNSON. I am familiar with the guest house program.

Mr. NICHOLS. My question then is: It is my understanding that you are not talking about just quarters for enlisted people, you are talking about a conventional-type motel with babysitting facilities, bars, restaurants, the same thing that you find in the Sheraton.

Am I correct about that?

GUEST HOUSE QUARTERS

Mr. JOHNSON. Our guest house quarters freely provide for transient personnel and for families that are there on assignment or traveling through or out looking for a house. Basically, that is what a guest house provides.

They may have eating arrangements in the small accommodations that they have for families, very small eating, maybe——

Mr. NICHOLS. Maybe General Joyce would like to respond. Is that your initiative?

General JOYCE. Yes, sir. It is.

Mr. NICHOLS. You are given credit for it, or blame for it, either one.

General JOYCE. This initiative that is labeled a hotel initiative began as we increased our capability to fund capital improvements, and got into rebuilding guest houses. Now, all installations have them, and most of them are 40 or 50 years old, and in a very bad state of repair, but they are a very handy thing to have around because they provide a low cost place for a family in transit to stay.

We got to where we saw the need to build about 70 of them.

Mr. NICHOLS. You call them guest houses.

General JOYCE. Yes, sir, and I will go beyond that term, as we go along, because when we looked at the prospect of having to pay for construction of this many guest houses, at that point our attention turned to the private sector.

There was another thing going on at the time, and still going on in the military, and that is that some of the club systems are in trouble. Drinking is down, both in and out of the military population. The lifestyles of people have changed somewhat. The Army is a lot more family oriented than it used to be.

The clubs did not appear to be appealing to the mass married audience in the military, and it was as a result of thinking of using the private sector to come in and build guest houses along with contemporary trends in society that spawned the idea of hotels.

In other words, the hotels, so to speak, would not only replace the old guest houses, they might also replace the officers clubs, and the enlisted clubs, and we might have facilities that were generally along the lines of the Hale Koa Hotel in which you combined guest rooms with dining facilities and other amenities.

Mr. MARTIN. Mr. Chairman, will you yield?

Mr. NICHOLS. Certainly, I yield.

Mr. MARTIN. I am going to ask General Joyce how your definition of hotels and the Secretary's might differ.

The chairman was just referring to guest houses. Just in case there is any doubt in anybody's mind what we are talking about, on page 7 of the General's statement. He clearly sets out what he is talking about.

He says in the bottom paragraph,

> The challenge is to provide first class nationally known hotel/motel accommodations for the Army families on post at affordable prices and in the process, bring on board modern community-oriented facilities which are geared to the very best available in the larger American society.

I want to make sure that the General leaves nothing in the gray area as to what he is talking about. We were not talking with the previous witnesses about the Key Bridge Marriott. But now, we are talking about the Key Bridge Marriott. Is that not right, General?

[General nods yes.]

Mr. MARTIN. OK. Thank you. I just thought I would offer that so there is no question.

Mr. NICHOLS. Just one thing. General, 38 years ago this month, my wife and I, as a young lieutenant back in World War II, were delighted to find a room at the guest house of Walter Reed Hospital. We were being transferred.

Guest house is one thing, but the concept in the mind of so many people who have written me, called me about it, is hey they are going to build a military hotel. How many stories it is going to have? We hear it is going to have eight stories to it. It may be blown totally out of proportion, but as an old soldier, you have got a lot of stripes on your shoulder—you know every military post in this country has got a string of motels out the front gate. It is a good place to put a motel. It is a good place for the private sector to operate.

So, I just want to point out to you the problems that those of us here who certainly support commissaries, exchanges, bowling alleys, and so forth, are apt to run into with the private sector if we get into this and on the grandiose scale that some people seem to be talking about.

General JOYCE. Sir, I understand those problems very well and appreciate them. Let me tell you a little more about this. We hired a hotel management consultant to go out and examine candidate installations. We asked the major commands who would like to participate in this on a trial basis, and they furnished us the names of about 20 installations. Then we had the hotel planning consultant go out and do a very thorough analysis of, first of all, what was available in the local community, what was planned, what the range of prices were, what was available on the post, and what were various other factors concerning construction and moves in the future.

They came back to us with a recommendation that only six were really viable targets for this kind of an activity because either there was opposition by the local chamber of commerce or there were enough competiting entities that they were prepared to add rooms or execute agreements to help meet the demand.

I think they gave us a list of six installations where there appeared to be no difficulty with the local community and where there was a need, and during——

Mr. Nichols. I wish I knew where they were.

General Joyce. Sir?

Mr. Nichols. I would be curious to know where they were. You need not put it on the record, but——

General Joyce. I will, sir.

Mr. Nichols [continuing]. Share it with me afterwards. Must be in the boondocks somewhere.

General Joyce. No. There are some areas of the country where the hotel business is good enough that the tourist trade pretty well keeps them all occupied and the military business is relatively trivial, and those really would be our targets to try this out.

Mr. Nichols. All right, sir. I think you ought to introduce your panel here. I am not sure we have done that for the benefit of the record.

STATEMENT OF MAJ. GEN. ROBERT M. JOYCE, COMMANDER, U.S. ARMY COMMUNITY AND FAMILY SUPPORT CENTER, DEPARTMENT OF THE ARMY

General Joyce. I am the commander of the Army's Community and Family Support Center, and Congressman Martin has the right man. I have been in this job for about 5 years, and I am responsible personally for whatever is going on in morale, welfare, and recreation. I cannot blame anything on my predecessor anymore.

I came into this business in 1979, with no prior experience, and, indeed, senior officers in the military very frequently do not have prior experience. They are familiar with these programs, but they do not know much about managing them.

And, I took as my guide the hearings by this panel that went on in the seventies and extended into the eighties. I came onboard about the time of the hearings that led to the transfer of the Hale Koa to our supervision.

Mr. Nichols. Yes. That brings back lots of memories, General. Lots of them. I was there when we stuck the blade in the ground.

General Joyce. And, I have taken the liberty of extracting some quotes from the hearings that were held in September, October of 1977, the 95th Congress, and some of these are quotes of you gentlemen.

I want to say I am a very literal person, and if I have a philosophy—and I believe I have—it was really formed on my reading of the various committee hearings over the years.

I guess the first quote is that: I believe I speak for the panel, that our primary interest, as these hearings progress, is the men and women in the armed services without whose participation, no defense of the Nation is possible and in the interest of the taxpayers, without whose support no government program is possible.

Then Mr. Daniel gave a summary:

> The purpose of nonappropriated funds (NAF) activities has changed since the early years. Then, so-called fringe benefits were provided as a form of additional compensation to make up for the low pay.

He went on to say:

> Now, with the all-volunteer concept, they should be seen as such benefits are in the private sector—as an inducement to attract and retain those men and women who, in their abscence, would otherwise not choose the military service * * *.

And, another quote:

> There is no question that increased efforts must be made to bring about greater efficiency, economy and effectiveness in accomplishing program objectives. We must continue to pursue courses of action designed to reduce overall program costs by eliminating activities with low utilization, consolidating facilities where possible, and reducing operating hours or services where warranted.
>
> Pricing policies, as well, should undergo continued review to insure financial stability. Also, commercial and civilian community alternatives should be examined. It is only through such efforts will we strike a balance between the essential MWR program objectives, effective utilization of the civilian and business sector.
>
> And, then the last refers to what Mr. Daniel called a fundamental problem striking an inequitable balance between what the taxpayers should fund and what the service members should pay for directly out of their pockets.

I have tried to manage generally along the lines that that philosophy describes, and to get educated I had to go out and do a lot of traveling my first 2 years in this business. I found out that there were a number of things that were wrong with it, and the main one appeared to be the state of our facilities, which was very poor.

My second observation was the program was not being run like a business normally is within our free enterprise economy—and essentially it was a business; it was being run more like a kind of a welfare operation in which services were provided with no thought to the bottom line at all, and the ultimate result of that was poor services.

We needed very badly command green suit support in the military to get more attention from the leadership of the Army in this program, and with that in mind, General Vessey, who was then vice chief of staff, was willing to charter a committee, called the Army Morale, Welfare, Recreation and Review Committee. I have been the chairman since it began in 1980, and the other members have been the two-star deputy chiefs of staff for personnel of the Army four-star command, a basic membership of five people.

And, we have been engaged together in a program that has, in 5 years, grown from about a $1 billion business up to a $1.4–1.5 billion business, and we have taken major construction of NAF-funded MWR activities from less than $10 million a year up in the range of $150 million now, last year, we executed a combination of NAF minor construction, major construction and capital purchases which totalled in excess of $200 million in support of modernizing this plant that we undertook in 1980 to improve.

Along the way, we have done what I would characterize as treating it more like a business. We have shaken out submarginal operations which could not pay their way unless absolutely needed for the morale and services of the troops. We have had a revolution in the way these activities are managed, and we have been very determinedly out to generate capital and get on with this job of modernizing this almost $2 billion backlog of new facilities.

I appreciate the opportunity to make those comments to you.

[Statement of General Joyce follows:]

Prepared Statement of Maj. Gen. Robert M. Joyce

Mr. Chairman, Members of the Panel, I am MG Joyce, Commander, U.S. Army Community and Family Support Center (CFSC). I am pleased to have this opportunity to appear before your Panel to discuss Nonappropriated Fund (NAF) Construction. I want to take this opportunity to thank you for your continuing interest in Morale, Welfare, and Recreation (MWR) programs and activities and look forward to working with the Panel on future MWR initiatives.

As you know, the MWR programs consist of a marriage of those which are supported by appropriated funds and others which operate in a commercial mode. The Army's "business" operations are a farflung conglomerate of clubs, lodging facilities, golf courses, bowling centers, travel agencies, child care centers, travel camps, tennis courts, swimming pools, and so on.

The facilities in which these and other programs are housed is of major concern to the Army as well as you, Mr. Chairman and the members of this Panel. Many of these programs take place in converted hangars and barracks, World War II structures and pre war stables. Although a number of management initiatives have been undertaken to professionalize the delivery of these programs, as long as we remain anchored to a deteriorating physical plant, our capability to deliver an MWR program appropriate for the American Army Family of the 80's and beyond is greatly handicapped.

Given this indication of the dimension of our mission to modernize MWR facilities, a major initiative was undertaken to get the Army leadership more involved in developing and managing a modernization of the Army's NAF funded facilities. In late 1980, General Vessey, then Vice Chief of Staff of the Army, chartered the Army Morale, Welfare, and Recreation, Review Committee (MWRRC) and tasked it to modernize the Army's MWR physical plant.

Membership included the Deputy Chiefs of Staff for Personnel of the Army's 4-star commands and the Sergeant Major of the Army, who were tasked to function as a corporate Board of Directors for the Army's MWR and NAF programs. Receipt of this charter sufficed to seize the attention of the Army's leadership. The intrinsic interest and the potential which is inherent in the program itself have managed to enhance and sustain their participation in bi-annual meetings beginning in 1980, through the most recent meeting hosted by Army and Air Force Exchange Service (AAFES) in Dallas on 15-16 May.

The MWRRC has turned out to a most unique example of cooperative policy making on the part of Headquarters, Department of Army and the Army's Major Commands. It has served to raise the level of intensity of military involvement with MWR and NAF management all the way up and down the line from the installation and community through MACOM and Army staff to the Secretariat and DOD. From rather humble beginnings, during which the membership met and pondered collectively how to satisfy General Vessey's charge, the education process has been continuous, and the level of sophistication of committee proceedings has greatly escalated over time, as we forged and sustained a system for getting the needs, the points of view, and proposed programs of the Army Family—wherever located—integrated into the programs, planning and decision process.

What we faced in 1980 was a "business" which was running about $35 to $40M in the red; that is to say, the Army was spending about $350M in APF, all of the $600M in NAF revenues it was then generating itself, and about $35 to $40M of the dividend received from the Army, Air Force Exchange System (AFFES) annually—just to break even and pay its operating expenses. That left precious little for capital investment, and given the dimensions of the NAF major construction agenda, the Army faced the dispiriting task of trying to accomplish a major financing mission using only petty cash. The first meetings of the MWRRC focused on ways to increase the amount of money we would be able to apply annually against our NAF major construction requirements.

An area the committee found rich in potential was the prospective benefit of transforming our business-type operations from loosely managed, infrequently-budgeted, and generally lacking in orientation toward any "bottom line" considerations into either profitable or break-even operations which did not constitute a drain on of Army NAF resources. First intuitively, then via constant and careful observation, we noted the appearance of a lot of slack in the way we managed our business enterprises. Managers were not geared to focus on such normal bottom line considerations as optimum labor scheduling, optimum price structures, surveys of user needs, and in general the plethora of services and profit seeking measures employed by successful entrepreneurs in the larger society. Without any hard substantiating data, we guessed the "slack" at maybe $10M worth; we were wrong, as later postmortems showed the disparity to have been worth almost $15M, with potential for even more tightening—without any degradation in services to the military community—if we really used our available resources wisely.

With these thoughts in mind as basic, and with higher optimism that perhaps our experience should have inspired, the committee in its fourth meeting meeting stepped off the cliff and initiated a program which became entitled "self-sufficiency." The challenge in this program went all the way down to a level of MWR activity managers in every Army installation and community. The message to them was that by FY 84 their operations would no longer be subsidized by funding from Headquarters, Department of the Army; that beginning in FY 84 the AAFES dividend to the Army would be set aside for Major NAF construction; that HQDA subsidies to local operations would become a thing of the past; that installations and communities would be expected to operate on a totally "self-sufficient" basis—that is, to fund the entirety of their own operations costs, and a year later, their own capital purchases and minor construction.

Clearly, the MWRRC took a very bold and forward-looking stance, and their fortitude was more than rewarded. The initial expressions of disbelief and dismay from installations and communities were, over a year's period, gradually beginning to be replaced by a new confidence and acceptance of challenge on the part of the MWR workforce. The Army as a whole reached self-sufficiency in FY 83, one full year ahead of the committee's very optimistic hopes, and when we gathered for our semiannual meetings in 1982 we began to wonder how we might actively exploit the potential of this workforce which appeared capable of a great deal better management than we had ever been given to expect.

As we looked down range in 1982, we began to see the potential for even greater advances in the generation of capital, which were yet to come on line. We saw coming enhancements to the overseas commands with the reinstatement of slot machines and the Army's commitment to Congress that we would use the revenues generated from slot machines for the improvement or replacement of facilities. I'll explore this and other initiatives for funding our NAF Construction Program in greater detail in Appendix A. It constitutes a comprehensive detailed plan.

Further, we began to probe the possibilities of a variety of management improvements and innovations which could impact at installation level—more modern accounting systems, more business management training, new types of enterprises, etc.—and we began to see the potential as much greater than we had previously believed.

In keeping with the spirit of probing other options to generate capital, as well as modernize MWR facilities, we have been reviewing a variety of ventures which could ultimately alter—and enhance—Army community life. One which has attracted a certain amount of press attention is the introduction of "name" brand lodging operations onto Army installations. As our potential to fund NAF construction has grown, we have attempted to satisfy the demands of many of our installation commanders for guest house-type accommodations for the Army family; (Current requirements are for 70 Guest Houses at $140 Million) at the same time we have sought a means to accommodate the demand for community and fitness-oriented facilities of the type we see burgeoning in the private sector. The MACOMs all furnished us candidate installations for these type facilities; we in turn engaged a professional hospitality consultant who conducted intensive market surveys both on and off-post at all the installations nominated and provided us a recommendation to pilot this program at six CONUS installations. With the approval of the Congress we plan to pioneer this program using a mix of requirements—some lodging only, some including physical fitness facilities, some other enhancements, depending on the sites ultimately selected by the installation commanders concerned and whatever existing adjacent facilities complement the activity. We contemplate operating these community lodges as a franchise operation, with the HQDA as franchisee, and the installation commander sharing in the profits.

The challenge is to provide first class, nationally known, hotel/motel accommodations for the Army Family, on-post, at affordable prices—and in the process bring on board some modern, community-oriented facilities which are geared to the needs of Army Families in transit but operated to the "brand name" standards common in the larger American society. The day is not yet here when the Army Family on the move can dial up the "800 number" which will give them an assured standard of what to expect at their new installation. But there's no doubt that eventual reality would certainly strike a blow against one of the greatest detractors to military life, the uncertainty and financial burden of arriving and beginning life at a new installation.

FUTURE OF ARMY CLUBS

Let me say a few words about the future of Army clubs. The Army club system is in an evolutionary process. Recent societal changes in alcohol use have caused a downward trend in club profitability. However, the Army does not believe that the future of the entire club system is in jeopardy. The current environment dictates that changes are necessary and the Army is committed to making the needed changes to reverse the current trend and ensure that soldiers and their families are provided facilities which are responsive to their needs.

Several options for club configurations are being considered. In some respects, they may be considered futuristic, as they do depart from the traditional Army club. For example, the planned construction projects at Fort Sill combine physical fitness activities with an upscaled food operation and a focus on family. In Yongsan, Korea, plans call for the construction of a community lodge, open to all ranks, and encompassing hotel accommodations with a variety of food outlets, retail stores and physical fitness facilities. These projects are not intended to be a panacea or single-Army solution to a complex problem. Rather, they embody a commitment to break from tradition to ensure that soldiers and their families have up-to-date facilities that respond to their needs. When completed, these projects will send a signal to commanders that change is inevitable and will operate as a catalyst for them to review their operations and propose changes which are responsive to their individual markets.

Early in 1984, we instituted a Quality Food and Service Program, which is an Army-wide effort to upgrade food quality through training and assistance in food preparation, service, and promotion. In continuation of this effort, over 160 managers and 1,000 employees received training. The Army is also promoting family-oriented programs. An increase in food sales of $1 million from FY83 to FY84 occurred and this trend is expected to continue. Food programs and family activities are the key components to the viability of the Army club system.

Many of the factors impacting on the Army club system are outside the control of the CFSC and require direct command actions. Actions initiated to provide more command involvement include transferring the technical assistance mission to MACOMs (with requisite personnel spaces) to allow them to fulfill operational responsibilities. CFSC Regional Offices will be refocused to oversight, audit compliance, and specialized training. These actions will ensure positive command involvement, and still allow CFSC to "grade the MACOM report cards" through its oversight role. Similar actions have proved very successful in the Eighth Army in Korea.

To reverse unfavorable club trends, numerous, hard business decisions must be made. Clubs must comply with budget and performance objectives; prices must be adjusted to keep up with the times; and, where applicable, consolidation or closure of club activities must be accomplished by MACOMs. With the requisite staff and mission, MACOMs will be willing to make these hard line decisions.

Additional CFSC actions include requesting the Air Force to accelerate the timetable for expanding their Central Beverage Office operation to include DOD installations in the states of Georgia, North Carolina and South Carolina. Considerable savings will occur. Exploring other central purchasing efforts for commodities, resale, and supply items is ongoing and has unlimited cost-savings potential. The Army is also giving the highest priority to recruiting qualified civilians to fill club management positions vacated as a result of the draw-down on military managers. Additionally, the groundwork has been laid for a complete revamping of the training provided MWR managers. A comprehensive program is being developed to provide managers and program operators specific training on MWR standards and performance objectives. This approach will ensure MWR managers at all levels are more attuned to the business and operational aspects of MWR management.

It is recognized that the confluence of social trends which are impacting on the Army club system may ultimately alter it from what has been traditionally known. However, regardless of whether they are called clubs or something else, our soldiers and their families need facilities which cater to their dining, relaxation, and social needs. This is supported by a recent survey of soldiers Army-wide. Approximately 80% of those responding reported using Army clubs at least monthly. In this regard, future initiatives must be geared to an expanding food market, capable of providing a wide range of family activities, and be highly efficient to operate.

SMALL CLUBS

The Army continues to take responsible actions to comply with Congressional desires to reduce APF support to small clubs. It should be noted that "small clubs" are not large or fancy and that the average age of the facilities in the Army Materiel Command (AMC), for example, is 30 years. However, these clubs do serve as the center of the installations' social life for soldiers and their families who have no other alternatives due to the remote and isolated location of these installations. Civilian participation in these clubs is incidental to the overall mission of providing morale services to soldiers and their families. The Army position is that it would be a disservice to the soldiers and their families at small installations to deprive them of vital and essential facilities in which to relax and socialize.

Following the definition of small clubs as being those clubs on installations with less than 100 active duty military assigned, there are currently only 10 clubs in AMC and 3 clubs in the Defense Logistics Agency (DLA) which meet this criterion. Those clubs are located on the following installations:

AMC.— Anniston Army Depot, AL; Lexington-Blue Grass Army Depot, KY; Red River Arsenal, AR; Sharpe Army Depot, CA; Tooele Army Depot, UT; Tobyhanna Army Depot, PA; McAlester Army Depot, OK; Pine Bluff Arsenal, AR; Rocky Mountain Arsenal, CO; and Watervliet Arsenal, NY.

DLA.— Defense Depot, Memphis, TN; Defense Depot, Tracy, CA; and Defense Electronic Supply Center, Dayton, OH.

The Commander, AMC, has taken a personal interest in complying with Congressional desires on the small club issue and on 17 April 1985, the Deputy Chief of Staff for Personnel, AMC, personally briefed Congressional staffers on AMC concerns and progress to reduce APF support to small clubs. In a follow-up to this briefing, a detailed report on actions taken was provided. This information was provided by letter, dated 30 July 1985. I would like to highlight some of the actions taken by AMC.

APF support ("S" Account) has been reduced from $695K in FY81 to $356K in FY84, a 42% reduction. I might also add that in spite of the continuous reduction of APF support, 100% of the small clubs in AMC are operationally profitable, which is an excellent example of positive command involvement.

All small, separate or installation officer, NCO, or enlisted clubs will be consolidated into community clubs by FY86.

An equitable method of increasing civilian membership dues will be enacted in FY86.

One point which needs to be emphasized is that APF support provided for utilities, building maintenance, and construction is not considered relevant to the small club issue. Our premise is that if clubs were not occupying these buildings, the Government would require that they be used for some other essential mission and costs associated with utilities and maintenance would continue at the same level.

DLA has also aggressively pursued reduction in APF support to their small clubs. The Defense Depot, Tracy, CA, received no "S" Account APF for FY83 and FY 84. Total "S" Account APF support for the Defense Electronic Supply Center, Dayton, OH, and Defense Depot, Memphis, TN, was only $68.8K for FY83 and $70K for FY84. The majority of these costs are associated with salaries of the management staff.

The positive command actions taken by both AMC and DLA which I have just highlighted are prime examples of the Army's desire to be responsive on this issue.

SURVEYS

The results of the Morale, Welfare, and Recreation (MWR) survey which were published in Fiscal Year 1985 provided an opportunity for us to review opinions and interests in the world-wide MWR program. The survey also provided a wealth of information useful to the field for planning purposes, to included programming development and funding as well as facility construction planning and development;

MWR program usage; User attitudes towards MWR programs; Non-usage of on-post MWR programs; and Future MWR trends.

The survey was comprehensive in that it included the full range of the Morale, Welfare, and Recreation program: Army Community Services, education, child care, sports, outdoor recreation, arts and crafts, recreation centers, music and theater, clubs, bowling, libraries, youth activities, and gym activities. As a group these programs and activities provided MWR opportunities for all individuals who comprise the military community: youth, single service members, single parents, and families.

Those surveyed were Army active duty service members in pay grades E1-06 (PVT through COL) assigned to 116 participating installations (excluding basic trainees/transients). Individuals participating in the survey were selected by using a randomly selected last digit of the Social Security Number.

A total of 45,450 surveys were sent to the participaing installations/communities in Febraury 1984. The actual number of surveys received was 33,853, and of this total, 32,545 were usable. The desired degree of confidence was a 96% approximation of the population.

Statistical reports were developed during October 1984 using the Statistical Package for the Social Sciences (SPSS). These preliminary reports, containing installation level analyses, were mailed to the participating installations in November 1984.

On 7 May 1985 we provided an analysis of the world-wide data to individual installations and activity managers. These end-users of the surveys were encouraged to use the information for planning purposes and for modifying current programs, and to capitalize on the opportunity to meet the needs expressed by today's soldier.

The results of the survey culminated a three-year effort to evaluate MWR services provided to the military community. The soldier's needs, as well as those of the family, surfaced as a consequence of this process. In addition, the world-wide survey has greatly assisted in economically streamlining MWR activities. The surveys also provided information to installation commanders to assist them in identifying construction needs.

The MWR survey has been viewed as a first step in what will become a recurring effort aimed at identifying and providing for a means of meeting soldiers' morale, welfare, and recreation needs.

CONSTRUCTION PRIORITIES

The decisions as to what type of facility or which specific project will be included in the NAF Construction Program are not easy ones. Army procedures are basically "bottom up", with installation commanders responsible for identifying facility needs and justifying them to the MACOM, who in turn selects the most needed projects and submits its proposals to HQDA. Commanders must analyze their functional program in order to determine the details of their facility requirements, such as size, layout. Based on projected available funding, the MWRRC determines which projects are to be designed and constructed.

PACKAGE STORES

In accordance with the Panel's recent instructions, we placed a $850,000 ceiling on construction costs for the FY 85 Package Stores, and will soon determine an appropriate site for a demonstration project to determine if alternate construction methods can be used success fully and less expensively. We believe that the current package store concept, the collocation of the beverage sales store and a consolidated MWR warehouse, has proven to be very successful. Based on first year results (Mar. 84-Feb. 85) the new Fort Rucker project resulted in a significant increase in net income plus cost savings from effciencies of over $122,000. Based on a cost $900,000, this change was significant. We would expect to use this concept in the future where appropriate, as we continue to plan for replacement of existing Package Store facilities.

Mr. Chairman, this concludes my statement. I would be happy to answer any questions at this time.

APPENDIX A

FINANCING RENOVATION OF THE NAF PORTION OF THE MWR PHYSICAL PLANT

How best to finance the renovation of the NAF portion of the MWR physical plant is an enormous task. We are faced with an identified $1.8 billion construction requirement. Creation of the Morale Welfare Recreation Review Committee

(MWRRC) was a crucial first step. This body took on major thorny issues, many in the area of financing, which have had significant impact in the way we conduct our nonappropriated fund (NAF) business. It was only through such a forum of major Army command (MACOM) representatives, augmented by appropriate Army staff representatives, that meaningful change could materialize.

NAF Major Construction is financed as a primary resource mission of the Army MWR Fund (AMWRF). Facilities and major renovations in excess of $500,000 are funded from the AMWRF. There is no cost to the installation. Most recently, the MWRRC has grappled with steps to pursue to meet immediate project submissions totalling $240 million for both FYs 87 and 88 against known cash availability projections of $60 and $55 million, respectively, for the two fiscal years. Special unique construction requirements involving AFRC, Europe, Eighth U.S. Army and major troop re-stationing further compound the financing complexities. I'll explore these unique MWR requirements in depth later.

A wide variety of alternatives to business as usual was examined ranging from borrowing NAFI depositor cash in the Army Banking and Investment Fund, to withholding interest, to commercial loans. Each of the eight or so options had advantages and disadvantages. The course of action settled upon involved separating the special unique requirements from normal NAF major construction and requiring installations to share in the financing. This latter action came as a result of revised budget procedures which has enabled identification of approximately $120 million expected to be available in normal installation NAFI checking and investment accounts as excess working capital.

For FY 87 projects, excess cash will need be to applied, and beginning with program execution year FY 88, a down payment of 10 percent of construction costs will be necessary at the time a project is ready for design. The installation then is required to provide furnishings and equipment at the time the project is completed. Depending upon the type project, this will entail an additional requirement of 10 to 20 percent of the construction costs. It is believed that these procedures will not be burdened and will cause careful consideration of project needs.

It is anticipated that adjustment of the basic NAFI structure inherent in the recently approved Installation Morale Welfare and Recreation Fund (IMWRF) will provide financing benefits. All appropriate installation cash assets will be merged. Likewise, all installation minor capital needs will be considered as part of one list. The increased flexibility afforded installation commanders and management personnel will enable worthy projects to be brought on line as desired or as financing is available. It will serve to better identify total cash assets versus requirements.

The AMWRF will continue to provide the primary resources for NAF major construction. However, when a demonstrated need exists at an installation, it will be required that installation working capital be applied prior to commitment of AMWRF financing.

Alternative revenue sources will bring some resource relief to program and capital needs. The agreement between AAFES and the Army for the operation of name brand fast food facilities has the Army share of profits directed to the installations/communities. Prior to IMWRF implementation these monies go to the installation morale support fund. Afterwards they will accrue to the IMWRF. This additional and often significant source of revenue will aid programs, and assist in financing minor capital needs. Should except cash develop, it will be considered at any time the installation requests NAF AMWRF financing.

A second major source of additional revenues is the Army Recreation Machine (ARM) Program, which involves the reinstatement of slot machines in Army Clubs and Armed Forces Recreation Centers (AFRCs) overseas. The U.S. Army Community and Family Support Center (USACFSC) has authority and responsibility to manage and operate the ARM Program. Since this program is so important for our overseas commands plus providing financing of our unique MWR requirements I'll go into some detail as to how it works and how the proceeds are applied.

In February 1978, the Commander in Chief, U.S. Army Europe (CINCUSAREUR) requested HQDA authorization to reinstate slot machines overseas. After a low-key feasibility analysis was conducted, the Army Chief of Staff and the Secretary of the Army approved a two-phase plan for slot machine reinstatement. The first phase involved a pilot test in two communities (Frankfurt and Kaiserslautern) with a total of 250 machines. Assuming its success, the second pahse provided for USAREUR-wide implementation. This later was expanded to include other overseas MACOMs.

Following the completion of the successful test during the first phase, full reinstatement of slot machines in overseas clubs and Armed Forces Recreation Centers (AFRCs) was approved by the Secretary of the Army and implemented by the Vice Chief of Staff in September 1982. The Army Recreation Machine (ARM) Program and ARM Fund were established to manage, administer, control and account for slot machine operations. Reinstatement was approved, predicated on the following conditions:

(1) Provide supplemental funds for MWR facilities construction and renovation.

(2) HQDA centralized purchase and ownership of slot machines.

(3) Centralized policy, management, administration, accounting and control by HQDA.

(4) To provide alternative recreation and guarantee return to the patrons of at least 93 percent.

(5) Revenue sharing provisions which provide equal distribution of profits to HQDA, major commands (MACOMs) and installation/communities participating in the program.

(6) Proceeds derived from the ARM Program would not subsidize operating programs.

The Army reaffirms and emphasizes its commitment to operate the ARM Program according to the conditions set forth by the Army Secretariat, to serve the dual purpose of internal control and achieving fiscal goals. Thus:

(1) Subsidy of MWR operating expenses will not become a program feature except for minimal direct expense reimbursements to locations where slot machines are placed.

(2) Profits will be applied to minor and major capital needs of installations/communities and MACOMs.

(3) Revenue sharing provisions will remain in accordance with the original plan.

(4) Management/operational responsibility, oversight and machine ownership will remain vested with HQDA in the form of the US Army Community and Family Support Center (successor organization to The Adjutant General).

(5) Continued operation of the ARM Program in this manner will cause the intended purpose for the reinstatement of slot machines to remain congruent and undiluted.

As stated, net earnings are to be shared equally between HQDA, the MACOM and the installations/communities. The net earnings for the MACOMs and installations/communities are computed and credited monthly. The money thus earned remains in trust accounts for each MACOM and installation/community. These trust accounts are treated as ARM Fund liabilities. Trust accounts may have money withdrawn from them after a MACOM approved capital expenditure disbursement or, as an exception, in advance for the imminent payment of an invoice. This latter provision is only applicable when a scarcity of funds exists within an installation nonappropriated fund instrumentality (NAFI). To prevent abuses, NAFIs are only eligible to withdraw funds after they have expended a reasonable amount of their own funds or demonstrate through current capital expenditure and cash budgets that they will exhaust their own NAFI cash assets in the near term.

The Army projects that the ARM Program will generate profits of approximately $25 million per year after full implementation. This increased funding capability permitted the MWRRC to consider other MWR NAF requirements which has previously been outside the ability of the Army to finance.

Several unique MWR NAF construction requirements have arisen requiring substantial capital outlays. AFRC, Europe, Yongsan Community Center and Lodge and new missions resulting in major troop re-stationings are these requirements. Funding of projects of this magnitude would cause severe disruption to the normal NAF major construction program. Alternative methods are necessary to finance these initiatives. All of these endeavors are at varying stages of conceptual development. For financial planning purposes target estimates of ultimate cost have been made. None of these initiatives has reached the engineering design stage of 35 percent. It is expected that in their final form, after deliberation and design, these estimates will be revised.

Some degree of financing latitude exists which can be further enhanced by timing of the projects.

The AFRC-Europe consolidation plan will replace and expand existing facilities which are outdated, poorly designed for their current use, lacking in amenities, and expensive to operate. Specific projects are a new 650 room hotel in Garmisch and in Berchtesgaden the addition of 139 rooms to the General Walker Hotel and 149 to the Berchtesgadener Hof. Program execution responsibility for completion and operation of AFRC-Europe is vested with the Commander in Chief, US Army, Europe (USAREUR) and Seventh Army. A general officer steering committee oversees development of a concrete plan of action. Currently, AFRC-Europe is projected to cost between $84 and $120 million. US Air Force assistance is being sought to provide a portion of the funding.

The Yongsan Community Center and Lodge will meet several needs. First, it will be the cornerstone of a completely redesigned MWR facility on a major overseas installation. It will become a focus for the installation and cause the closure of several facilities.

Second, it will provide 275 sorely needed hotel rooms central to installation services for incoming families and other patrons. Its third mission will be to provide a most desirable facility for soldiers from elsewhere in Eighth US Army (EUSA) to use at their leisure. EUSA recently terminated its lease agreement with the 400 room Seoul Garden Hotel, which was larger than needed and financially impractical. The alternatives to the Seoul Garden examined by the Army were to lease space in other hotels, or construct a facility for families PCSing in and out, soldiers on pass/leave, and official visitors. In close cooperation with EUSA, and with the aid of an outside consulting firm, Peat Marwick Mitchell and Co., we selected a site in Yongsan Garrison for a family-oriented hotel and community center. Also included in the Yongsan initiative is a consolidated enlisted club. These two projects will replace several existing club annexes which are too small individually to operate efficiently or profitably. Current working estimates for the project range from $35 to $40 million for the Community Center and Lodge with approximately another $6 million necessary for the club. The Yongsan projects will provide, through consolidation, significant economies of scale resulting in the savings of $1-2 million in annual appropriated fund (APF) manpower and support costs.

The major troop re-stationings that are currently underway pose difficult challenges. MWR programs are vital. Facilities of sufficient size, condition and number need be present at the time large numbers of soldiers and their families arrive. The establishment of light infantry divisions at Ft. Drum and Alaska and troop concentration shifts in the Federal Republic of Germany are currently in progress. These create strains on NAF dollars. Department of Defense in a long standing recognition of the NAF financial upheaval caused by such movements, authorizes the use of APF for facilities which otherwise are a directed NAF mission.

Senior Army leaders are most sensitive to ensuring that adequate facilities of all types are available commensurate with the population movements of soldiers and families. The prospect of the time lines of the Major Construction, Army process and the reasonable expectation that appropriated funds would not be available tilted funding of the Ft. Drum projects toward the use of NAF resources. Major Construction, Army APF resources will be sought for the 6th Light Infantry Division activation in Alaska and the re-stationing in the Federal Republic of Germany of soldiers and families to Vilseck.

NAF major construction in support of the 10th Light Infantry Division at Ft. Drum is estimated at $17 million. To date the Army Morale, Welfare and Recreation Review Committee (MWRRC) has approved projects totalling $17 million. Specific projects are: (1) enlisted club, $1.2 million; (2) MWR auto/self-help garage, $2.0 million; (3) bowling center, 24 lane, $3.7 million; (4) youth activities center, $2.2 million; (5) skill development center, $3.2 million; (6) outdoor equipment rental center, $1.4 million; and (7) athletic fields, $0.8 million. Design costs of $2.5 million round out the total amount.

The ability to fund all these projects necessitated new thinking. Faced with a regular MWR NAF construction backlog for $1.8 billion, projected non-growth of the AAFES dividend and these unique MWR requirements, the MWRRC approved a financing plan for AFRC, Europe, Yongsan and Fort Drum. The Army Recreation Machine (ARM) Fund is the primary source of cash to finance these initiatives.

This is in keeping with the charter provision of using ARM program proceeds as a supplemental resource for NAF capital improvements. Ft. Drum will be wholly funded from this source. The Yongsan project will be funded on a shared basis from the HQDA share of the ARM Fund, and from Eighth US Army cash assets, using a combination of investment program balances and ARM proceeds. AFRC, Europe will be funded on shared basis between HQDA and USAREUR.

At a given point in time, use of ARM proceeds in the manner stated will reduce cash balances below a level which would permit a wholesale, simultaneous payment to all trust account depositors. The likelihood of such occurring is so remote as not to be a concern. We will in essence be borrowing from ourselves with the HQDA share replenishing the necessary cash. The Eighth US Army and USAREUR trust account shares would be reduced accordingly. Community and installation trust account balances will remain whole and be available on call for approved capital projects. Using current working estimates the equilibrim of the ARM Fund would be in balance in FY 1993. Should the current preliminary estimates increase, other alternative financing decisions would be necessary or an increase to the time line would ensue for these unique MWR requirements.

Mr. NICHOLS. General Hayes, do you have a statement?

STATEMENT OF BRIG. GEN. JAMES S. HAYES, COMMANDER, TROOP SUPPORT AGENCY, DEPARTMENT OF THE ARMY

General HAYES. Yes, Mr. Chairman.

I am Brig. Gen. Jim Hayes, Commander of the Troop Support Agency at Fort Lee, responsible for operation of the Army commissaries.

It is certainly a pleasure to be with the subcommittee again this morning and to discuss with you for a few minutes what is going on the Army commissary business.

I have prepared a statement, which, with your permission, I would like to insert in the record, and spend a couple of moments recapping some of our recent successes in programs that we have underway.

We currently have 7 new projects which are under construction and 18 more which are under design that we intend to place under construction within the next 2 years. The total price is approximately $179.7 million.

All but 4 of those 25 we expect to pay for out of our surcharge funds. We estimate that all construction funds that we currently have on hand are going to be fully commited to construction by March 1987. In addition to the projects which you are looking at in this year's program, we also have in view 28 more projects through fiscal year 1991 at a price tag of about $181.5 million.

Mr. DANIEL. General Hayes, will you suspend for a moment, please?

Mr. Nichols has a couple of questions he needs to ask you. He has to go to another meeting. So, the gentleman from Alabama is recognized at this time.

Mr. NICHOLS. Thank you. I apologize, General, for interrupting your statement here.

I just wanted to ask about the commissary facilities at both Fort Drum and at Fort Wainwright, where the new divisions are going.

In reference to Fort Drum, it is my understanding that the initial decision to seek appropriated funds for that commissary was later changed within the Army. Can you tell us who decided to use NAF and the rationale for that switch?

General HAYES. Sir, that was a decision that was made at the departmental level, based strictly on timing, the total dollar involvement of getting Fort Drum on line, and the lack of support expressed by a member of the SAC staff.

We currently have under design and in our surcharge program, a commissary for Fort Drum that we hope to open in 1987. But that project is a surcharge-funded commissary project.

Mr. NICHOLS. When will that commissary be ready for occupancy, if it opens on schedule?

General HAYES. The beneficial occupancy date is presently scheduled for November 1987. If this schedule holds, the new store should be open for soldiers and their families to use in January 1988.

Mr. NICHOLS. The other question I wanted to ask refers to the facility at Fort Wainwright. I had the opportunity to spend some time at Fort Wainwright during the month of August, and made a point to visit that commissary, which is in a pretty sad state of affairs. The commissary manager, I think, is doing an excellent job with what he has.

Am I correct to say that that particular upgrade will be in the 1989 request?

General HAYES. No, sir; what we plan at Fort Wainwright is a total new facility that will be included at the present time in the Army's fiscal year 1988 MCA program.

Mr. NICHOLS. Fiscal year 1988?

General HAYES. Yes, sir.

Mr. NICHOLS. Then, if it is in the 1988 program, it ought to get in operation some time before the last quarter of 1989——

General HAYES. Yes, sir.

Mr. NICHOLS [continuing]. Which is when the 6,000 troops are expected to be there.

That ends my questions, Mr. Chairman. Thank you very much.

Mr. DANIEL. Thank you, Mr. Nichols.

Please proceed, General.

General HAYES. OK, sir; I think the discussion that we had certainly is reflective of how we constantly evaluate our program and realign it to satisfy Army needs and decisions as they are made concerning stationing of our forces.

Another area that we have been working is to get our cost of construction down and we now compare favorably with the other services, except in the area of site preparation.

It also appears from our data that we are not significantly more expensive on those areas that we can compare when compared directly with the civilian sector. The Army does spend a good bit more on design and contract supervision and administration than the civilian sector, but this is due to many of the constraints that we face within our system.

In spite of this, we are building at about $90 per square foot in total costs compared to about $88 per square foot, a figure recently obtained from a progressive supermarket chain.

We are not satified with just being competitive. We are continuing to look for ways to conserve money. One way we have done this is through standardized designs, which reduce our costs, time, and construction and as General Chavarrie mentioned, we have just concluded a feasibility study looking at a concept of central distribution for support of our commissaries in CONUS.

The recently completed study shows that the concept does appear viable, and that the startup costs of such a system could probably be amortized in about 6 to 7 years. We still have more evaluation to do before moving further with this initiative.

We are also site adapting our designs to save time and money and are emphasizing energy efficient designs to reduce our operating costs, so that in the long run we have more dollars available for construction.

Another point to be made about this year's particular program that you are looking at is that completion of these facilities will allow some 155,621 square feet of fully depreciated temporary buildings to be demolished and will release an additional 213,350 square feet of temporary and semipermanent facilities back to the various installations to use in meeting other space requirements.

Mr. Chairman, we have heard your guidance on placing emphasis overseas in major troop installations have taken it to heart and are acting upon it. Of the 25 projects that I alluded to earlier, 12 are for overseas commissaries and 5 are for stores at major troop populations in CONUS, and 2 of these projects are in support of the Light Infantry Division.

In summary, it is a pleasure to be with the subcommittee, and to share with you the optimism and enthusiasm that we have for the Army's commissary construction program. We view it as a viable one which is judiciously using our surcharge funds to construct needed facilities at overseas and CONUS installations with major troop populations.

We are constantly looking for ways to reduce our costs, improve our efficiencies, and identify and use alternative sources of funding where they may be possible.

Thank you, Mr. Chairman.

[Statement of General Hayes follows:]

PREPARED STATEMENT OF BRIG. GEN. JAMES S. HAYES

Good morning Mr. Chairman, thank you for this opportunity to address you regarding the Army's Commissary Construction Program.

The Army's system of commissaries includes 178 sales outlets worldwide. The average age of all of our facilities is 31 years and more than 60% of these are housed in facilities never designed to house supermarkets. Major emphasis has been placed on commissary construction to rectify this situation since initiation of central management in 1976.

Realizing that the scope of the construction problem was much greater than the resources available, the Army began initiating a number of actions to get more for its construction dollar in 1981. These initiatives are now beginning to come to fruition and will show even greater results as more happens over time. Some examples of recent successes include:

Development of design guides and standardized computer aided designs (CAD) that reduce design time and cost and provide a basis for repetitive site adaptation of successful design concepts. Designs were taking 2 to 2½ years before CAD but are now down to about 1 to 1½ years, depending on location and we expect to reduce this to 9 months.

Where before individual designs were made for each project, this is now done only where required by site constraints. For example, the Patch barracks design is being site adapted for 4 more projects in Germany (Wuerzburg, Vilseck, Garlstadt and Zweibruecken). We expect to cut about 6 months off each of these designs through this technique.

Energy efficiency is being emphasized. Where the heat removed by the refrigeration systems has traditionally been wasted, it is now used to heat water or provide environmental heating. For example, the furnace does not come on line until the outside temperature falls below 15°F at Fort Leavenworth.

Construction time is also being reduced. Fort Belvoir took 27 months under the old system, but Fort Jackson will be completed in 18 under the new. We expect to reduce this to 1 year for For Lewis.

The construction program is being accelerated as a result of savings from improved system efficiencies. Twenty-four new stores have been built and 24 major alteration improvement projects were accomplished between 1970–1984.

The eight projects being addressed in this year's NAF construction report will allow 155,621 square feet of fully depreciated temporary buildings to be razed and will release an additional 213,350 square feet of temporary and semi-permanent space to the parent installations for their use in meeting other space requirements. In this way, surcharge funded facilities are helping meet other installation goals.

This committee's guidance to place emphasis overseas and at major troop installations in the United States has been taken seriously and is being acted upon. Of the 25 projects under design and construction, 12 are overseas and 5 are at major troop posts in CONUS. Two of these projects are in support of the light infantry division concept.

While new stores are being emphasized, it is realized this is not all that can be done to help resolve the problem. In an effort to further improve commissary services within current resources, TSA has initiated a drive to expand store hours with minimal increases in personnel costs. This is made possible by careful review of personnel assets to ensure that the proper number are assigned and to ensure that those assigned are scheduled to meet peak customer demands.

Increased hours provide expanded service to the patron and permit working family members to shop during hours that the store would not have normally been open. Expanded hours have also served to reduce waiting times and to provide better distribution of workloads. Commanders and customers are pleased with the expanded service which helps enhance the quality of life for our patrons. To date, 29 stores in CONUS and the Far East and approximately 25 stores in Europe have had store hours expanded.

Army surcharge earnings for construction are $30-35 million per year. While this may appear to be a sizable sum, it is far less than that required to sustain the system in efficient and modern facilities Based on the Army's standard life expectancy of 25 years, we should plan to replace about seven stores per year to stay even with obsolescence alone without consideration of other requirements. But we are only earning enough to replace 3-4 stores per year at our current rate of earnings. When this is considered in light of the fact that the average age of all Army commissaries is 31 years, it becomes apparent that there is no way to keep abreast of our long-term construction requirements within the constraints of the current funding situation.

Thus, it is critical that the Army's limited surcharge funds be applied in the most judicious and cost effective-manner possible.

The Army's Commissary Construction Program is the result of a thorough and continuing annual review of its worldwide requirements in which changing missions are frequently evaluated to ensure the most pressing are addressed on as timely a basis as possible. These reviews are conducted at all levels of command from installation through major command, the Department of the Army staff, and finally by the DA subsistence review committee, to see that surcharge construction funds available are most effectively utilized.

The Army currently has seven projects under construction and 18 more under design that will be placed under construction in the next 2 years. Based on the best information available at this time, these 25 projects are expected to cost about $179.7 million and all except for there are scheduled to be paid for by surcharge funds. Although it may appear that the Army has more surcharge money than it needs to sustain its construction program, this is not the case. The 102 million currently on hand was earned during the 1981-84 timeframe while the Army was developing new concepts of operations and standardized designs to meet its needs during the 1980's but $55 million of this has now been committed so only $47 million remains available this time.

We estimate that this $47 million will be fully committed by March 1987 and projects will then be awarded as soon as sufficient funds become available to keep the balance on hand at the minimum acceptable level.

Although only those projects the Army expects to award during FY 86 were presented in this year's NAF construction report and are presently under review by this committee, the Army has 28 projects at an estimated value of $181.5 million it expects to accomplish through FY 91. In addition, it has 22 more projects at an estimated value of $129 million approved but not prioritized by the Department of the Army due to lack of funds. Even this is not a complete listing of the Army's backlog of construction. There are an additional 36 projects at an estimated cost of $182 million remaining to be addressed over the next 10 years if the Army is to provide its members a shopping environment similar to that enjoyed by the population as a whole.

As you can see from these figures, we cannot address all valid requirements over the short term—only the most critical can be attacked. Yuma, for example, certainly needs a replacement facility. The urgency of need has been identified and a project to build a new store is under development, hopefully in the FY 87-88 time frame. The warehouse for Carlisle Barracks, renovation of a warehouse facility into a new commissary for Lexington-Bluegrass and Yuma are examples of CONUS urgent requirements. At the same time, the Army continues to evaluate its overall needs in light of the changing structure of the force. An example of this is the impact on the commissary construction program resulting from the recent stationing decisions concerning light infantry division deployments. Before Fort Drum became the home for the 10th Mountain Division, there was no requirement to build a new commissary there over the short term; but we now have a new store under design for Fort Drum and expect to open this new facility in 1987. At the same time, the Army has moved the new construction for Fort Wainwright from FY 89 where it had been anticipated before the LID stationing actions to FY 87 to support the anticipated population increase.

The Army continues to evaluate its construction performance in comparison to the other services and to the market in order to assure it is not out of line. While this is a difficult analysis to accomplish since the Army and Air Force build contiguous warehouses where the Navy and the commercial sector do not, it does appear the Army is competitive with the other services. It also appears that we are not signifcantly more expensive on those areas that can be compared directly with the civilian sector.

The Army does spend a good bit more on design and contract supervision and administration than the civilian sector, but this is due to constraints of the federal system; it also spends more on site preparation than the other services. In spite of this, the Army is building for about $90 per square foot in total cost compared to a $88 figure recently obtained from a progressive supermarket chain. We are not satisifed to just be competitive and are constantly looking for ways to conserve money. We have standarized designs to reduce cost and time of construction and are currently looking at the possibility of going to a centralized distribution system rather than perpetuating the current concept of providing a stand-alone facility at each sales outlet. A recently completed study shows that such a concept appears viable and that the start-up costs of such a system should be amortized in 6–7 years. This would also provide a cost avoidance of $14 million over the next 5 years by negating the need for large warehouses at new stores constructed during that time.

Another means of getting more money for construction being actively pursued is to utilize other sources of funds wherever appropriate. Current examples include host nation funding in Japan and Embassy funding in Egypt. The use of NATO funding to support construction required in northern Germany was pursued but not found viable. Alternate funding will continue to be pursued wherever it appears appropriate. In addition, the possible use of appropriated funding is being evaluated for requirements resulting from restationing or other instances where the Department of Defense guidance makes such appropriate.

It is clear that even with the many initiatives to conserve surcharge the Army continues to pursue, insuffient funds are being generated to meet its needs. Since military commissaries are for all authorized personnel regardless of service, the surcharge earned should be employed solely to support commissary operations. While the Army at this time does not support consolidation of surcharge funds, it could support a procedure that would transfer funds from one service to another after a certain threshold is reached. If there is not construction backlog in the transferring service.

In summary, the Army commissary construction program is a viable one with emphasis on using soldier surcharge funds to construct needed facilities overseas and in CONUS at major troop installations. The program is being aggressively managed to provide continued advances in construction cost reduction, improved operational efficiencies, and identification and use of alternative funding sources to ensure our soldiers and their families are provided the efficient modern commissaries they are entitled to.

Mr. Daniel. Before we get into a general discussion, General Joyce, what is the status of Fort DeRussy now?

General Joyce. Sir, I am not aware that there is any problem involving it right at the present.

Mr. Daniel. Sir? Has there been any change in the status of Fort DeRussy? Mr. Johnson, can you respond to that?

Mr. Johnson. There has been no change. As you know, there are a number of laws on the books that says we cannot do anything about it, but the status is the same as the Secretary of Defense once said not too long ago, that if there were some open space there and you could sell it, the proceeds would go to the—reduce the deficit, he would agree to it.

Mr. Daniel. But no action has been taken to date?

Mr. Johnson. No, sir.

Mr. DANIEL. All right. Thank you.

General Joyce, there seems to be a difference in the policy of the Air Force and the Navy as opposed to the Army with respect to emphasis on the expenditure of nonappropriated and appropriated funds by the types of facilities we have been talking about.

Can you explain what that difference is, and why we have it?

General JOYCE. Well, I think, Mr. Chairman, the major difference between the Air Force and Army is the orientation of the entire program. We use the entire dividend that we receive from the Army and Air Force exchange system to pay for NAF major construction. The Air Force, I believe, uses it to subsidize operations.

We got out of that business several years ago, and we really did it because our NAF budget process was kind of a wasteful process. People tended to ask for more than they needed in order to get what the bottom line was.

We wasted a lot of time with that and we never really got truly a good handle on it, but as you looked around, you could see that managers were not really managing with an eye toward the bottom line; they really were indifferent to their labor costs. The whole variety of kinds of things that managers out in the civilian world really have to pay a lot of attention to.

And, it looked to us as though there might be $10 or $15 million dollars worth of slack in that system. If we could get to the point where we could say we are not going to give you a dividend anymore at all, we are going—we have some major construction needs, that the whole Army needs, and we need to build these things, and we—I talked about our committee, our review committee, as the body, told the major commands that beginning in fiscal year 1984, we are going to become what we call self-sufficient.

In other words, we do not give you any of the dividend money anymore; you guys figure out how to break even, get business-like, control your costs, make the appropriate use of what your appropriated funds are. If you are not asking for them and you are spending NAF, instead ask for them and spend appropriated funds wherever the Congress has authorized it, and we did get it to the point a year early. We got there by fiscal year 1983, where the entire dividend from the exchange system and since that time has been used for major construction.

The only exception to that is that we do take some off the top, the headquarters, Department of the Army, to take care of the smaller commands in the remote and isolated places that have no way to become self-sufficient and run their own programs in that way.

Mr. DANIEL. Mr. Waters.

Mr. WATERS. General, as we visit various installations, we note the Army, for example, will pay for the refinishing of a bowling alley with appropriated dollars because they feel that is part of the facility that can be maintained with O&M dollars.

On the other hand, we go to a Navy installation, same type bowling alley, and the cost of refinishing those alleys is with nonappropriated funds.

General JOYCE. Going back to 1980, when we found the review committee, one of the first orders of business at the first meeting was try to figure out where we could tighten up our program.

One of the things that came to the surface, and it was surfaced by a member of the professional staff of this committee, who was invited to attend, was that we were spending nonappropriated funds for a lot of things that under the laws and under the appropriate DOD directive, you could use appropriated funds to pay, if you had them.

So, we began a very widespread education process throughout the Army to tell people what they were authorized appropriated funds for. Now, that resulted in some growth to the S account, the appropriated fund account, but, in effect, we were replacing NAF because we were intent on generating NAF and retaining it so that we could use it to build those things that you had to use NAF for.

So, I would say that our policy throughout the Army for the last several years has been if it is authorized by law and the governing directives to be appropriated funds, then go get them and use then because we have other uses for the NAF.

Mr. WATERS. I think that is the basic issue we are trying to get at. We have DOD issuing instructions to the services but, based on earlier testimony, there is no followup. So, what we have is different interpretations of the DOD instructions, without any oversight by the office of the Secretary of Defense. What we are looking for is how these facilities are managed. Basic management, you plan, execute, and review. We do not see where the plans are being put into effect and then reviewed to see they are in accordance with the plans.

Would that be a part of your office's responsibility in the Army?

General JOYCE. In so far as the Army is concerned, they follow our policy. We just take a very literal interpretation of the DOD directive. As General Chavarrie remarked, they set criteria, and we just apply those governing criteria in—is what we have been doing the last several years.

It is tempting not to do that in some cases because if you have nonappropriated funds, which you have generated yourself, it is lot easier to just spend those than it is to go into the budget fray and get appropriated funds at whatever level you happen to be located at.

That was one of the problems with our program; it was fat and lazy. We were spending around the world $40 million dollars in nonappropriated funds back in 1980 for things that could have been funded with appropriated funds if they had them. We set about to get those—get that money—ask for and ultimately authorized and we have gotten a couple of increments of it and our budgets have grown accordingly.

Mr. DANIEL. Mr. Johnson, you work closely with the DOD construction criteria. What is your view of that? What does it contribute? Can it be improved? What function does it serve?

Mr. JOHNSON. I think it is a good criterion but needs to be improved. The thing about it is that it is based on maximums and sometimes it is difficult to return off-post, activities to the criteria of what is authorized.

I do think that we should have this committee come into agreement with the criteria. Sometimes we do it by criteria, and then we have too many retired people at a certain place thus overloading a facility. The criteria needs to better address this issue.

Mr. **Daniel**. It might be well to have the staff sit down with you and go over this in detail and make a report to the panel.

Mr. **Johnson**. Very well.

Mr. **Daniel**. Mr. Martin.

Mr. **Martin**. Thank you, Mr. Chairman.

General Joyce, it is obvious from the questioning, as we knew all along, there are different ways of doing things in this area, among the services. That goes without saying.

But, it was not 45 minutes ago that we had the Deputy Secretary of Defense for Installations sitting at that table, and he had a kind of need, as I understood it, to expunge the word hotel from his vocabulary.

The next witness, yourself, General Joyce, again referring to your own testimony on page 7, speaks to the challenge of providing first class nationally known hotel/motel accommodations for the Army family on post, at affordable prices and in the process bring on board modern community oriented facilities which are geared to the very best available in the larger American society.

I want to salute you on a definition that does not hurt the clarity at all. The Secretary, I would think, in those areas where we are speaking for all the services, has expunged the word hotel from his vocabulary. It is going to cause you communication problems, I am sure, in that he no longer has that word in his lexicon.

Mr **Martin**. How do you explain the difference of philosophies between the Deputy Assistant Secretary of Installations and those of the Army?

How do you explain that?

General **Joyce**. I cannot really explain it, sir. I will say he is probably looking at these from a different point of view than me. He talks about hotels. He is looking at that as a concept of the normal kind of hotel you find in a built-up area without regard for——

Mr. **Martin**. The Secretary?

General **Joyce**. Yes; and I am guessing that that——

Mr. **Martin**. I think the Secretary was talking more about guest houses rather than first class nationally known hotel/motel accommodations. You are not talking about the same thing at all.

Where do we go from here? Does he make the decision? Do you make the decision?

General **Joyce**. We intend on coming through his office, through the Department of Defense, to the Congress, and requesting authority to proceed with an initiative to test franchising of nationally known hotel organizations on U.S. military posts.

Mr. **Martin**. When do you suppose that would happen?

General **Joyce**. In a couple months.

Mr. **Martin**. I sure would like to be there to find out how we arrived in that situation. You are obviously talking about two different things, and earlier you referred to a comment Mr. Daniel made. I do not know how long ago it was, about a certain balance, and as his words were true then, I believe they are true now.

Do you feel that your definition of balance, again talking in the area of first class nationally known hotel/ motel accommodations, do you think your definition of balance and Mr. Daniel's are about the same?

General JOYCE. Well, I would like to say a few more things about that, if I could, about this whole issue.

Mr. MARTIN. I am a little confused. I wonder if we are playing with the same——

General JOYCE. As I remarked earlier, this initiative began as a rather humble start of replacing guest houses, not really building more, but replacing old ones. We were faced with a very big bill to do that.

Our committee, when we were facing the prospect of building a large number of these things and also the prospect that if we financed them totally with NAF, we might start bumping into accusations of competing with the private sector; we said why do we not try to engage the private sector in this venture and maybe we can induce some chain motel agencies to build them for us—that would allow us to save our money, build these things, and then operate them on some kind of a franchise arrangement, and the commander of the exchange system took this on as a mission just to see if there was interest in the industry.

There was a great deal of interest in the industry. Now, the kinds of things that people needed at installations ranged all the way from, in some places, just some more room. That is really all they needed. They had sufficient other activities that they just needed more modern rooms, and I guess this is classically the guest house. Just a place to stay.

There were other installations that had to replace aging activities of various kinds, clubs, physical fitness centers, things like that. Gradually, the idea came about we might be able to do all these things simultaneously under one structure that was more attuned to what younger people in today's larger society seem to want to do.

As I said earlier, the dollars that used to go into clubs that were largely dedicated to drinking, are now being spent other places. They are being spent in some of the national food chains and people go to these—the type of motel/restaurant, hotel/restaurant, combinations we have been contemplating.

So, the idea generated for a lot of reasons. It did not begin as an idea to go out and license hotels, but the further along we got, the further it became apparent that there might be some real economies in this, and as long as we were going to do it, we would really be smart to do it on a national basis, like we did with the Burger King initiative. On that basis you get a lot better share of the profits, so and if you are going to do it, you should deal with a nationally known chain because, you know, why should not the people in the military have something just as good as the people in civilian life get, and that is behind the rhetoric about first-class accommodations.

Mr. MARTIN. I do not think anybody on this panel and, hopefully, no one on the Armed Services Committee, wants people in uniform to have anything less than their civilian counterparts. But you said you did not want to get into competition with some of the folks downtown who construct these facilities and provide a variety of choices for people in and out of uniform. If you do not want to get into competition with them, I would suggest backing off half a turn from first class nationally known hotel/motel accommodations. If you take pride in authorship of this, I will tell you this is good brochure language to hand out as far as competition with folks downtown. I am kind of wondering about the Army's langauge in reference to what Secretary Stone said. How do the Navy and the Air Force feel about this language?

Do they agree with this evolution into first class, second to none anywhere in the larger American society, hotels? Is that pretty much their language, too?

General JOYCE. I do not really——

Mr. MARTIN. Or do they have guest houses like the Secretary?

General JOYCE. I am not sure whether they have any plans in this regard or not. I think that—I have heard talk that the Air Force was interested in a venture something like this, but I do not really know for sure.

Mr. MARTIN. How about the question I asked about the balance issue? Do you agree with what the chairman had to say. I do not know what year that was. I think that was the late seventies or early eighties. Do you feel the balance he was speaking about was the same balance that you perceived? Maybe you and the chairman are talking about different points on that——

General JOYCE. That the balance between appropriated funds and NAF?

Mr. MARTIN. And the facilities. I understood that you have a card there with the chairman's comments on it. I do not know if the chairman was here.

General JOYCE. The comment that I read was—it is a quote from Mr. Daniel. It says:

> There is then a fundamental problem of striking an equitable balance between what the taxpayers should fund and what the service members should pay for directly out of their pockets.

The idea of the hotel initiative is that the taxpayers do not fund any of the construction costs at all, that it is privately funded and that the service members pay for it directly out of their pocket via the charges for the rooms and via the charges in the eating and drinking facilities.

It is accordingly modeled after the Hale Koa wherein this committee directed us back in 1980 to take the hotel off the dole, take it off appropriated funds completely, get it on a break-even businesslike basis, and the——

Mr. MARTIN. The last time we had a hearing here, we were talking about the use of credit cards in exchanges. The exchanges made the comment, and rightfully so, that they do, in fact, pay taxes in the sense that they relieve the taxpayer of the burden to build facilities because they are built from their profits. They build facilities that otherwise the taxpayer would build.

Do you agree with that?

General JOYCE. Yes.

Mr. MARTIN. Well, if you agree with that, I would also suggest that you have to believe as well that there is a valid taxpayer complaint when you are in competition with them because this takes away from the people who are outside of the base who are paying the taxes. There is an effect on them, is there not?

General **Joyce**. Oh, yes, sir.

Mr. **Martin**. And, there is an effect on the other first-class hotels, second to none, that you are going to compete with.

General **Joyce**. That is one way of looking at it, and I should say that we do not have any intention of doing this at any installation where the community does not want it.

Mr. **Martin**. Was my comment valid as far as the contribution of revenues outside the base competing with these hotels as legitimate as the argument made by the exchange people that they do, indeed, pay taxes because they build facilities out of their profits that otherwise would have to come from the taxpayers?

Now, is not one argument as legitimate as the other?

General **Joyce**. Yes, sir.

Mr. **Martin**. I would suggest that the question of balance is where we are going. I would hope two things: one, that we all know what we are doing when we draw that line, and, second, that the General along with the Admiral in charge of the Navy's portion and the General in charge of the Air Force, can get together and speak with Secretary Stone.

I would like to find out how we resolve it, and where the lines are because as much as we want to support exchanges, commissaries and the other facilities and everybody here feels it down in their hearts, there are going to be some limitations. I do not think that the line perhaps that you see, sir, is the same line I see.

In all due respect, I know you have been in this 5 years, and I have been on the panel about a month, but, as you look at the evolution of the kind of service you are providing, the people on the outside have some legitimate interests as well.

Thank you very much, Mr. Chairman.

Mr. **Daniel**. Thank you, Mr. Martin.

Gentlemen, we have many other questions, but we have promised Mr. Hutto that he could come on at 12 o'clock, and it is my understanding he is on the way. So, thank you very much. We will present the other questions for the record, and we will appreciate your responding to them within 2 weeks.

Thank you very much for your attendance.

Mr. **Johnson**. Thank you, sir.

[The following questions were submitted to the witness to be answered for the record:]

QUESTION. The Air Force is one service that seems to have its commissary construction pretty much under control. In fact, some people have told the panel that in several years the Air Force will not need all its surcharge money for commissary construction and may want to use it for other projects, like clubs. Given the extensive commissary backlogs in the Army and the Navy, should the Department consider consolidating all surcharge monies from the services, and then fund those projects that are most needed rather than letting each service do their own funding?

ANSWER. The Army, at this time, does not support consolidation of surcharge. It could support a procedure for transfer of excess funds from one service to another. However, no mechanism for management of this fund currently exists. A system would have to be developed and approved by the Tri-Services. Each service must be allowed to continue to address or fund their own construction needs first. Such a management system would also have to be flexible enough to allow each service to use their funds to their best interest for the commissary, for example, no construction may not be programmed for a certain year in order to fund for ADP systems procurement.

QUESTION. You have a consultant studying your CONUS distribution system. Changes in distribution could directly affect the sizing of your stores, especially in warehouse space. What is the current status of that Distribution Study?

ANSWER. The study was completed on 28 June 1985. We now have the contractor, Technology Management Corporation, who performed the study analyzing the proposed sites with an objective of identifying three sites and then the most feasible site of those three where we can do a test of the prototype system.

QUESTION. Are you making any efforts to use more frequent deliveries to reduce the size and cost of your warehouse?

ANSWER. Yes. We are testing Frequent Delivery System at Fort Lewis, WA at this time and plan to rely on it when the new store opens. We will also use it in support, at least initially, of the new store at the Presidio. We will look at using it when it makes sense until such time or the final decision is made on whether or not we will utilize our own distribution centers.

QUESTION. On page nine of your statement you tell us about the process for Host Nation construction. What has been your experience, and is there any way to build more stores at overseas locations with Host Country funding?

ANSWER. Our only experience with Host Nation funding of U.S. Army commissary facilities is with the Government of Japan and its' Facilities Improvement Program. Through this program, a new facility is being constructed at Sagamihara, Japan. Surcharge funds are being used for operating equipment.

We had expected to get Japanese funding for replacement of of our two annex facilities in Japan, but have recently been advised by U.S. Army, Japan, that future funding of U.S. commissary facilities is no longer approved. USARJ indicated loss of Host Nation support resulted from a recent action by the Navy's Commander in Chief, Pacific (CINCPAC).

As my statement indicated, NATO funding was pursued for construction requirements in Northern Germany and was not approved. It doesn't appear we can look forward to any more Host Nation support for commissary construction.

QUESTION. You mention on page five of your statement that three projects won't be built with surcharge funds. What are these projects and how will they be built?

ANSWER. Sagamihara, Japan - Funded by Government of Japan, Cairo, Egypt - funded by U.S. Embassy, Vilseck, Germany - submitted in FY 87 MCA program. Subsequent to submission of my statement, Fort Wainwright has been included in the FY 88 MCA program. Above projects require use of surcharge funds for commissary operating equipment.

QUESTION. On page eight of General Hayes' statement he mentions extra design and supervision costs incurred because of the "constraints of the Federal System." Can either of you identify the specific "constraints" -- whether they be legislation or regulations -- that are raising costs?

ANSWER. The "constraints" are a collection of both legal and regulatory requirements. We are required to adhere to Congressional and Executive Office requirements such as energy conservation, the Davis Bacon Act (minimum wage), environmental considerations, access for handicapped, Federal procurement regulations (pure competition), and social programs (Small Business Administration), etc.

QUESTION. On page seven of your statement you mention a new store at Fort Wainwright. How will this project be funded?

ANSWER. At present, the Army plans to submit the Fort Wainwright Commissary project for appropriated funding in the FY 88 MCA program. The Congressional design notification (2807) for the MCA project has been forwarded to this committee by the Corps of Engineers. We have been advised that its approval or disapproval is being held in abeyance pending the results of these hearings. Surcharge funds will be used for operating equipment if MCA funded construction is approved.

QUESTION. Your statement says that the Fort Jackson Commissary will be constructed in 18 months. What will be the total project time at Fort Jackson from project initiation to store opening?

ANSWER. The design directive was issued to the Savannah Engineer District on 8 November 1982. Construction is to be completed 14 November 1985. That's a total of 36 months.

QUESTION. On page eight of your statement you mention your Centralized Distribution Study. What is the current status of the study and your future plans?

ANSWER. The study was completed 28 June 1985. After a review of the recommended proposals, the contract was modified to identify three alternative sites and subsequently the best site for a prototype distribution center in order to test the concept and validate transportation costs, personnel requirements, facility requirements, inventory management and demographic peculiarities. This effort is expected to be completed in February 1986.

QUESTION. General Hayes, DOD has proposed eliminating a formal criteria for sizing commissaries. What effect will this have? How will the Army size its new stores?

ANSWER. The Army will size its new stores using the commissary construction criteria developed by a Tri-Service Ad-Hoc Group and approved by all services. These criteria were developed under the authority which designate the Secretary of the Army as the Executive Agent for the development of construction criteria. The previously published DOD commissary construction criteria was developed before 1970, did not accurately reflect the service requirements and was developed before computer aided designs were available. The new criteria more accurately reflects the sizing needs of all services.

Question. Your statements mention the problem of the Army commissary backlog -- it is growing instead of shrinking. What is your major strategy to reverse this trend? How long will it be before you are in the position of reducing the backlog instead of having it grow?

Answer. It is growing based on a complete review of construction requirements that are not already included in the FY 85-91 surcharge funded or MCA construction programs.

This review identified a requirement to replace, modernize or expand an additional 58 facilities at an estimated cost of $311,392,000. 29 projects estimated to cost $197,668,000 are for CONUS locations while 29 projects costing $113,724,000 are for OCONUS.

Our major strategy to reverse the trend is through execution of our major construction program.

Based on current funding levels, it would require 17 years to complete the currently approved FY 85-91 program and the unprogrammed construction backlog. However, as we continue to pursue our cost cutting initiatives and alternative funding sources, we hope to cut some time off the 17 years.

Question. The Commissary Executive Board, in one of its studies, recommended that your Yuma, Arizona store be transferred and supported by the Martine Corps. Can you explain what happened to that initiative?

Answer. After evaluating the recommendation to provide support of our store at Yuma from the Marine Corps Distribution Center at El Toro, CA, it was decided to defer this action pending the final outcome of our distribution study. A review of the El Toro stockage list indicated that it could not satisfy the total need for our Yuma store, hence we would still require warehouse space and rely on the current sales force and distribution network for support. Reducing the number of products coming through that network would have resulted in us not being able to order economic quantities of those items. Hence, some of the products our customers demanded would not be available.

There would also have to be some consideration by the Army to provide cross-service reimbursement for labor cost to select and ship the subsistence to Yuma.

Question. The panel has long expoused reducing the size and cost of commissary stores by utilizing commercial distribution systems, increasing operating hours and eliminating unneeded administrative space.

What initiatives do you have underway to reduce the size and cost of these stores?

Answer. Commercial distribution systems are currently being used for frequent delivery operations at the Fort Lewis commissary. We will also rely on those distributions in the San Francisco area to service the new store at the Presidio on a frequent basis. This procedure can only be utilized at locations where adequate commercial distributors are available. Many of our small stores or those stores located away from metropolitan areas can not utilize such a system as it is not available. This is basically why our study on the most feasible way to provide products for Army commissaries concluded that a series of government operated distribution centers in the United States was the most viable option. This study has identified 17 locations as possible areas where these facilities can possibly afford a cost savings to the entire military commissary system. The study has been expanded to phase two which will identify the specific locations to be used in a prototype test.

Increased operating hours are being used to relieve congestion in stores which are currently undersized and to preclude additional construction projects. We will continue to pursue this initiative even more in the future. Our computer aided designs are now providing us with the most efficient layout of our administrative area and the minimum amount required. They also permit us to site adapt previously designed stores wherever possible. This reduces design time and avoids cost escalation associated with a longer design period.

Question. In your statement you mention expanding hours to meet customer demands instead of building new stores. Fifty-one of your 178 outlets have expanded hours. How many additional stores have the patron demand where expanded hours could be beneficial?

Answer. In addition to the 51 stores scheduled for expanded hours for fiscal year 1986 we have programmed 45 stores to receive expanded hours in fiscal year 1987. This covers 32 stores in CONUS and 13 overseas. These expanded hours are expected to be funded in fiscal year 1987, however, recent information is that dollars may be in jeopardy.

Question. The time and cost it takes to construct our basic business facilities really appears excessive. The Army, for example, takes four years to design and build projects like clubs, bowling centers, and commissaries.

What is being done to reduce the time and cost for these projects?

Have you ever considered bypassing military construction channels and hiring a civilian firm that specializes in grocery stores or restaurants to build these facilities?

Answer. The Troop Support Agency and the Corps of Engineers have developed eight standard computer aided designs which, as projects are constructed, will give us a basis for site adaptation. For example, in Germany, the design of the Patch Barracks Commissary will be site adapted to four other locations (Wuerzburg, Vilseck, Garlstedt, and Zweibruecken). We expect to be able to cut off six months in design time and save not only design money but also inflation costs by being able to construct earlier.

We are also trying nonconventional procurement techniques to design and construct commissaries. The "two-step" procurement technique is being used on the Fort Lewis project. This is similar to the one-step procedure and significantly reduces construction time.

Contract modifications are being held to only those deemed most essential to provide the best possible facility.

We also conduct inventories of existing equipment to ensure that any equipment with sufficient remaining serviceability is reused in a new facility.

Identification and use of alternative funding sources is another way to reduce surcharge construction costs. Appropriated funds are sought to demolish buildings and provide clean sites and adequate utilities.

To my knowledge, by passing military construction channels and hiring a specialty civilian firm to build commissaries has not been explored in any detail.

Question. As examples for how priorities are set, please explain how a warehouse at Carlisle, PA, and a renovation at Lexington-Blue Grass, KY, received very high priorities among all of the Army's needs for commissaries?

Answer. The Carlisle Barracks project has been in our construction program since 1980 and has been endorsed by the Major Command every year since. The construction of a new warehouse is to replace two remote warehouses, one of which was constructed in 1893 for an unknown purpose and the other as a horse stable. These facilities are completely inadequate based on physical condition, location and operational effectiveness. The relative low scope and cost of the project was a major factor in its inclusion in our program. Its positive impact on the operation makes this a worthy project. This warehouse is sited and so designed that it will be incorporated into a total commissary facility when we build the sales area at a later date. We do not need to replace the store at this time, but the inefficiencies of those warehouses are killing us.

The Lexington-Blue Grass project for conversion of an existing warehouse bay to a commissary originally started out as a minor construction project estimated to cost under $500,000. The final design cost estimates exceeded by approval authority of $500,000 for funded costs.

The existing facility is a horseshoe type layout in the original building constructed in 1940, a lean-to addition, a house trailer, and two portable shelters. The extremely limited space restricts line items sold, the narrow aisles restrict flow of patrons and restacking of food items.

The total area available (5,666 sf) is about 30% of the minimum essential requirements (19,000 sf). This facility is one thousand percent worse than Yuma. The project does not include warehouse requirements and we are negotiating with the installation to obtain an adjoining warehouse bay for that purpose.

Inclusion of this project in our major construction program was approved as an "out-of-cycle" project by the DA Subsistence Review Committee since the need to execute it was warranted and the design was complete. Its funding would not impact on other approved projects. Funding was possible due to savings realized on projects recently placed under construction.

MORALE, WELFARE AND RECREATION PANEL

QUESTION. Mr. Johnson, please explain any initiatives you may have in building overnight accommodations that would replace or surplant current billeting activities — like BOQ's and BEQ's.

ANSWER. At many of our installations, overnight accommodations for transient and TDY personnel are simply nonexistent or totally inadequate. The Army Staff has been considering various alternatives for dealing with this problem. I understand a consultant has been retained to explore the possibility of third party financing for lodging facilities at certain installations. However, this proposal is still under study at this time.

QUESTION. Mr. Johnson, in your statement you say the Army is the executive agent for developing DOD construction criteria. This sounds like the OSD's role. Is this a new responsibility and, if so, what does it entail?

ANSWER. Yes, this is a relatively new responsibility. As executive agent, the Corps of Engineers takes the lead in formulating tri-service recommendations to OSD which, in turn, are approved, rejected or altered by that office. The Corps of Engineers will then take the administrative actions to implement these decisions.

QUESTION. Mr. Johnson, your statement mentions the large construction backlog of $2 billion for MWR and $26 billion for military construction. Does the $26 billion include those MWR facilities that are eligible for appropriated funds like gyms, child care centers, swimming pools and libraries? If not, have you decided that all recreation facilities in the future will be funded with NAF?

ANSWER. There is a DOD policy which establishes whether a given facility should be funded with appropriated funds or NAF. Basically, the two backlogs have been compiled based on this policy. As I'm sure you are aware, in recent years there have been instances where the Military Construction Committees of the Congress have taken exception to and refused to authorize or fund some facilities which had been programmed for appropriated funds in accordance with the DOD policy. Thus, it appears these facilities will have to be funded with NAF if they are to be built.

QUESTION. Mr. Johnson, your letter of September 19, 1985 requested approval of a $200,000 cost increase to the Fort Ben Harrison bowling addition. The increase is attributed to changes in the seismic zone criteria. Do commercial bowling facilities around Fort Ben Harrison build to the same seismic criteria?

ANSWER. Commercial bowling facilities in the vicinity of Fort Ben Harrison have to meet local and state building codes which are less stringent than DOD criteria regarding seismic design.

QUESTION. Mr. Johnson, the panel understands the Army is starting a study of the future of the nonappropriated fund system. Please submit for the record a synopsis of the study, including its objectives and milestones.

ANSWER. The Office of the Secretary of the Army has tasked the Director of the Army Staff to conduct a systemic analysis and evaluation of the policy, procedures, and philosophy that support our current Morale, Welfare and Recreation Program. The review will involve a top-to-bottom look at the manner in which the Army manages and operates its MWR programs and monies and will be accomplished by a private sector consulting firm. The day-to-day management of the effort will be done by the Director of Management through the Study Director. After the contracting process is completed, on or about 15 December, a contractor will be evaluating such areas as organizational structure (from departmental to activity); financial management process; personnel support system; procurement/contracting system; accounting/management reporting system; and construction. The review is expected to take five to six months, commencing on or about 1 January 1986.

Question: The design of Army MWR facilities appears to take excessive time. What is the average design time for an MWR facility? Who reviews the functional design of a facility, and who makes the final design decision?

Answer: The average design time for an MWR facility is 361 calendar days. The functional design review and the final design decision regarding functionality of the facility is accomplished by the Community Facilities Office of the U.S. Army Community and Family Support Center and the local Army installation.

Question: What actions are either anticipated or underway to speed up the execution of Nonappropriated Funds projects?

Answer: Actions being taken to speed up the execution of design and construction of Nonappropriated Fund projects is to utilize more fully single competitive contract solicitation for design and construction rather than separate contracts for design and construction and combining functions in a single project, i.e., clubs, a combination Officers/NCO/Enlisted clubs into a single facility.

Question: What priority do Nonappropriated Fund Construction projects have in the District Engineers Offices supporting the program?

Answer: The Nonappropriated Fund Construction projects receive the same level of priority and attention as the other major programs.

Question: Are the District Engineer Offices charged with supporting the Nonappropriated Fund Construction Program at the same level as MCA Work? If not, what are alternatives to obtaining this support? Has the Army considered contracting this work out?

Answer: Since the Nonappropriated Fund Construction Program contributes to the improvement of the soldier's quality of life, each District Office supporting this program is charged with providing the same management attention to this program that is provided to the MCA, MCAF and other construction work. Essentially all design work and 100% of the construction is contracted out to private industry.

QUESTION: The panel has suggested going to standard design packages for nonappropriated fund facilities as a method to reduce cost and speed up the construction process. What is the Army position on using standard designs?

ANSWER: The Army believes that there are distinct benefits which accrue by standardization and has established, through the Corps of Engineers, a process to organize proponents for Army facilities in an effort to develop standard facility plans wherever possible, to implement those standard plans, and to maintain those standard plans current, technically and functionally.

QUESTION: Does the Army use commercial or industry design and construction specifications for nonappropriated fund facilities? if not, are there any reasons for not utilizing such specifications?

ANSWER: Paragraph D.6.a. of DoD Instruction 4105.67, Nonappropriated Fund Procurement Policy, requires procurement to be accomplished on a competitive basis to the maximum extent practical. Competition is obtained from a reasonable number of sources unless single or sole source negotiation is justified.

OCE Guide Specifications, which are largely a compilation of commercial or industry standards, are prepared to provide maximum competition and are used for conventional procurement procedures. For turnkey type procurement, reference to industry standards is used as the basic procedure.

Question:

What guidelines do you have for allowing appropriated fund support to revenue producing activities? Is appropriated fund support allowed for expenses directly related to the revenue producing activity — i.e., resurfacing alleys in a bowling center or maintaining tees/greens on a golf course?

General Joyce:

Under policies published by the Office Secretary of Defense (DOD Directive 1015.6) resale/revenue producing activities, except for those required by statute to sell at cost price, are required to be self-sustaining in terms of operating expenses for civilian employees; purchase of operating equipment, stock, supplies, transportation, and utilities; and maintenance of the interior of space occupied and of equipment used, except when appropriated fund support is specifically authorized.

Resurfacing of alleys in a bowling center is treated as routine maintenance and repair of government personal property. The alleys are classified as equipment in place. As a matter of policy either appropriated or nonappropriated funds may be programmed and used for repair and maintenance of equipment in place. Army policy provides that all maintenance costs for greens, bunkers, traps, and tee boxes, to include costs for professional greenskeepers, are a user responsibility to be funded from nonappropriated fund user fees. Maintenance on roughs and fairways not requiring specialized equipment or skills is authorized from appropriated funds.

QUESTION: What is being done to standardize designs for commissaries and MWR facilities?

To what extent do we have to redesign these facilities for each new project?

ANSWER: Standing committees are being formed to work with Corps of Engineer Field Operating Activities (FOA) to develop standard plans for commissaries and MWR facilities and to maintain those plans current. However, there are standard plans for commissaries and MWR facilities (unit entertainment centers and bowling centers), as well as, completed project drawings which are being utilized currently for site adaptation where possible.

When standard plans or completed project drawings are being site adapted, those design documents are modified to meet the project site requirements and changes required for specific functional needs.

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Question:

The panel has found a number of "revenue producing" activities that do not pay their utilities. For example, some bowling centers are using appropriated funds rather than NAF to pay utilities. What are your guidelines for paying utilities and other expenses in "revenue producing" activities?

General Joyce:

Under policies published by the Office of the Secretary of Defense "revenue producing" activities may be categorized as DOD MWR Category II, III B3 or V MWR activities. Bowling facilities of more than six (6) lanes are considered Category III B3 activities. CONUS MACOMs are delegated authority and responsibility to classify installations under their jurisdiction as urban or non-urban for purposes of determining utilities support to Category III B3 MWR activities. Detailed criteria, as defined by the Department of Census is the basis for these classification actions.

For those installations designated as urbanized, CONUS major commanders may excuse reimbursement of utilities by individual Category III B3 activities. Reimbursements may be excused if they determine that the accessibility, cost, or similar activities within the urbanized area effectively precludes or makes undesirable their use by military personnel and their dependents. Category III B3 bowling facilities in non-urban areas are entitled to utilities support without reimbursement. All MWR activities overseas are granted utilities support without reimbursement.

Question:

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Resurfacing of alleys in a bowling center is treated as routine maintenance and repair of a government building by virtue of the fact that the alleys are installed and become part of the building. As a matter of policy repair and maintenance of such building parts is a government responsibility payable from appropriated funds. Army policy provides that all maintenance costs for greens, bunkers, traps, and tee boxes, to include costs for professional greenskeepers, are a user responsibility to be funded from nonappropriated fund user fees. Maintenance on roughs and fairways not requiring specialized equipment or skills is authorized from appropriated funds.

Question: Your statement mentions the small club problem. First, let me set the record straight. The panel never intended to limit any analysis to clubs with less than 100 members. Our concern has always been with any clubs that receive a disproportionate amount of appropriated fund support regardless of size.

Clubs with less than 100 members were initially brought to the Army's attention because we thought it would be easy to resolve the problem at these small locations. We were wrong. The Army has not yet resolved the problem at these small clubs. The AMC report you mention was not complete and did not resolve anything.

Please explain the Army's overall plan to reduce disproportionate distribution of APF. If the panel restricted food and beverage operations to one location at each base, would this solve the problem?

General Joyce: I feel the Army has taken responsive action in reducing the amount of APF to small clubs, particularly in AMC where S account has been reduced from $659K in FY81 to $356K in FY84, a 46% reduction. In most cases, the majority of these costs are associated with the salaries of APF managers, which means we are virtually at rock bottom as far as further reductions unless we take a different approach.

In FY84, total APF to clubs Army-wide was 54 dollars per capita. At some major troop installations, it was less than this amount and at smaller installations it was disproportionately higher.

I don't feel the panel has to take action to restrict food and beverage operations to one location at each installation. What we are looking at is how essential MWR services can be provided and at the same time better utilize APF. There are some small installations where one food and beverage outlet may be the solution and we will pursue this. However, this is not necessarily the solution Army-wide. I feel we can alleviate your concerns on disproportionate use of APF by continuing with our efforts to reduce S account APF support, by proceeding with further consolidations, and by developing an equitable civilian employee dues system. Also, if we decide that the single food and beverage outlet is the only solution at an installation, and it happens to be the civilian post restaurant, we can always allow an exception for the serving of alcoholic beverages on those occasions required for military protocol.

Question: Your statement talks about the future of Army clubs and a number of new initiatives the Army wants to make to rejuvenate the system. At the same time, many of your clubs currently lose money. This is partially the result of a number of Army initiatives including alcohol deglamorization, that reduce club sales and profitability.

There seems to be conflicting philosophies within the Army. One group is telling the soldier "Come into the club more often", another group is saying "Don't drink" or be seen in the club.

Please explain to the panel the overall Army strategy for its club system? Should we postpone all club construction until the situation becomes a bit clearer?

General Joyce: I don't feel there are any conflicting philosophies within the Army. Clubs are the major suppliers of food and beverage on the installations and, as a result, have felt the impact of the Army's effort to reduce alcohol-related problems. The same impact has been seen in the private sector from similar initiatives at state and local levels. The Army's position of fostering moderation and responsible drinking should not be construed as don't drink or don't go to the club.

Our overall strategy for the club system is to ensure we have facilities that provide quality food, beverage, and entertainment programs that are responsive to the needs of soldiers and families. Since Army installations vary as far as size and population, likewise the scope of operations, programs offered and methods of delivering this service will vary. Our concepts for future clubs may not work at every installation. Our thrust in these initiatives is to demonstrate that perhaps soldier and family needs can best be served by facilities that are a departure from what we traditionally know as clubs and use this as an example for commanders to review their operations in light of what changes can be made to better serve soldiers and families. If this means consolidation of clubs, closure of nonessential facilities, or facilities that are a departure from traditional clubs..so be it.

I don't feel that we should postpone club construction. The projects that are currently under consideration are long overdue to correct operational deficiencies and make them more efficient to operate. The proposed FY86 construction at New Cumberland concerns a consolidated club which replaces two World War II vintage facilities that serve as separate officer and NCO clubs. This project is in sync with our initiatives to replace facilities that have become cost prohibitive to maintain, inefficient to operate, and our guidance to commanders to pursue consolidation when it is not viable to maintain separate facilities.

Other FY86 construction at Fort Eustis, Fort Knox, Fort Irwin, and Fort Leavenworth include new construction and renovations to existing facilities that will correct past deficiencies, obsolete facilities, provide food outlets where none exist, accommodate the handicapped, and, in some cases, meet safety codes. The Fort Sill project, as you know, is a prototype.

Each of these projects is considered essential and in tune with our efforts to provide modern facilities capable of responding to the needs of soldiers and families.

Question: It is our understanding that a bowling alley below 12 lanes cannot be operated profitably. Is there a sizing breakeven point for bowling alleys, golf courses, guest houses, etc? What are they? In what circumstances would we build facilities below the breakeven point?

General Joyce: We have not determined any particular sizing breakeven point for bowling centers, golf courses, or guest houses.

We have 9 hole golf courses and 4 lane bowling centers that do generate profits. Conversely, we have as many examples of larger facilities that have not been able to generate a positive net income. In most cases, management capabilities, quality of facilities, and positive command support can be deciding factors to economic viability.

The size of the facility should not be the single factor in our decision to build but rather we should look at each project in light of how essential it is to the soldiers and families stationed at that installation, what, if any, acceptable alternatives are there to providing the service, and how efficient we can provide the service using available resources.

Question: Ft. Myer requested a 20 Lane Bowling Center in this year's program. In an analysis of the present 6 lane facility, we found that it had a net income before depreciation of $21,000. At the same time, the bowling center received $70,000 in taxpayer support.

If you look at that bowling operation from a business perspective, it is losing $49,000 a year ($70,000 - 21,000). Base personnel look at the facility as a "revenue generator" because they ignore the taxpayer dollars.

Are these operations structured to ignore taxpayer support? Should we analyze these operations on a total funding basis to determine economic viability and profitability before they are approved?

General Joyce: OSD policies provide the guidance on levels of appropriated fund support that MWR activities may receive. We follow that guidance for all MWR activities, to include bowling centers, in determining what operational expenses are authorized to be paid from APF. This is not to say that each bowling center receives 100% of what may be authorized under OSD policies. They still have to compete for available APF resources with other mission essential requirements. This is why significant variations in levels of APF from installation to installation occur. Our implementation of the OSD policy is that, as essential MWR activities, bowling centers are authorized APF support for specific costs. They are not structured to operate without it. If the APF support were not authorized, the operations would take on more of the characteristics found in centers in the private sector at the expense of the soldier. Operationally, bowling centers are structured to recognize a certain level of APF support and the need to generate additional NAF revenue to subsidize shortfalls in APF. Bowling centers, as Category III activities, do not retain profits. Profit generated is used to support other MWR programs on the installation and in many cases provide needed funds to supplement programs that are not authorized APF or programs that have an APF shortfall such as outdoor recreation and child care.

I think it is essential that we analyze these operations from a total funding basis to have a full understanding of the mix of APF and NAF dollars that are needed to sustain operations. I don't feel, however, that this should be the deciding factor in project approval. Need and essentiality to the total MWR program at the particular installation concerned and our ability to efficiently manage the activity using available resources should be the prime factors.

Question: You are quoted in a newspaper last month as saying the club system doesn't have many good managers. One way to improve club management may be to hire civilian managers.

Is the Army going to civilianize its clubs and reduce the military role in club management? If so, will there be a change in the chain of command--i.e. will the new managers report to the base commander or some stovepipe organization?

General Joyce: The Army programmed the withdrawal of all officer personnel from the club system during FY87, and we anticipate that reductions will also be made in the numbers of enlisted personnel assigned to clubs. These military will be replaced by civilian employees. We are preparing concentrated recruitment efforts to attract high quality civilians to these jobs. The intern program I mentioned earlier will also be a feeder in the civilianization process.

We plan no change to the chain of command. The civilian managers will work for the base commanders.

Question: Your statement describes the process of how projects are selected and prioritized. This is basically a "bottoms-up" process that leaves most of the responsibility at the base and major command levels.

The panel, however, in reviewing projects over the last few years, has found both the installation and major commands not doing an adequate job determining what facilities troops want. We seem to be building facilities that the base commander or the MWR staff wants -- not the troops!

How do you verify that these organizations are doing an adequate job in building projects the troops want the most? Have you considered going to a "top-down" system?

General Joyce: I wish we could develop and present to your panel an annual program with which everyone agrees. However, I suspect there will always be some of us who will not agree with every one of the projects. Each of us seems to look at a project with a different perspective; soldiers perceive certain needs, and these vary by age and service. Family members perceive certain needs. Commanders at all levels perceive needs. Staff members also see needs. We try to take a sum of all of these and develop an overall Army program to fit those overall needs. We and all installations consider the results of various needs assessments/surveys and feedback from installation personnel. In addition, the CFSC Management Assistance Teams evaluate and provide recommendations to installation commanders on essential facility construction and renovation programs. We also frequently have our staff do feasibility studies which provide feedback for our office and recommendations for field commanders. We strive for some balance which can sometimes be seen as not responding directly to "the desires of the troops." This includes such things as balance between revenue-producing and revenue-using (service) facilities. We try to provide for career families versus young soldiers to encourage retention, knowing that a large number of our soldier population is in the "young" group, many of whom are first-termers. We may even consider the retired community, since they have earned that retirement for many years of active duty and are a primary source of exchange dividends. There are also other special interest groups. The MWRRC tries to consider all these -- and other -- factors and develop a facilities construction program which is in the best interest of the overall Army. At the present time, we have no plans to change to a "top-down" system whereby the people farthest from the installation would identify initial facility construction requirements. We feel that the present system is the best one to use to satisfy the majority of our recipients.

Question: Your statement mentions the recently completed Army-wide MWR survey. The most desired MWR activity was outdoor recreation. Over 96% of the respondents indicated they would participate in these activities. This year's program doesn't contain many projects dealing with outdoor recreation.

Please explain how the results of the survey can be translated into actual construction projects at the base level.

You say in your statement the survey will be a recurring effort. What are your plans for additional surveys?

General Joyce: Outdoor recreation is the newest of the community recreation core programs (1971), and response to this activity has continually increased particularly during the last several years with the Army focus on fitness, adventure activities, and family initiatives.

The Army-wide MWR survey validated the growth and popularity of this activity. Installations have expanded their post level programs from those offering minimal activities such as camping, fishing, backpacking, and boating, to more extensive programs offering challenge activities (such as skiing, mountain climbing, and scuba diving), rod and gun centers, nature centers, parks, and equipment checkout centers offering a wide variety of outdoor recreation equipment. The majority of these projects were completed with local funds through self help projects or special grants in response to unique requirements and interests expressed by each installation.

As the program continues to expand, major outdoor recreation projects are being developed. We anticipate that increasing number of major outdoor recreation projects like the recently completed outdoor recreation complex at Fort Campbell, KY, and the Fort Carson project currently in the program for FY 86 will be constructed.

Regarding translating the world-wide results into construction projects at the base level, installation commanders have been encouraged to analyze the results of the two documents (1) the installation survey, and (2) the world-wide results, and make program modifications and changes based on the expressed interests of the military community. These changes and modifications will impact on construction priorities.

The survey will be a recurring effort. Surveys will be conducted on a world-wide basis every four years by DA. Installations are required to conduct local surveys every two years and are encouraged to utilize the results in program development.

Question: Your construction backlog is currently about $2 billion. It may grow if the Fort Drum and Fort Wainwright type projects are funded with nonappropriated funds.

What is your philosophy in expanding your program with projects like Yongsan ($40 million) and commercial hotels rather than targeting your funds on more traditional MWR facilities?

General Joyce: The envisioned Yongsan Community Center and Lodge (YCCL) is a reflection of the new concepts we are pursuing in providing services and programs to our modern soldiers and families and will be an economical replacement for the previously leased Seoul Garden Hotel. This concept will provide traditional MWR activities through innovative means and provide for an operational savings as well. A multi-use complex, the YCCL will offer guest housing for families in travel status and for discretionary travelers on leave and pass, physical fitness and recreational facilities for the installation population and the traveler, quality and diverse food and beverage operations, and meeting facilities. Construction of this community center will eliminate redundancy of facilities in the Yongsan area and will result in a reduction of approximately $1.5 million in appropriated funds support each year.

Funding for the Center will be provided on an equal shares basis by Eighth U.S. Army and HQDA. Both parties will utilize recreational machine revenues as the prime source of construction dollars for the Center. This funding arrangement ensures that those MWR construction projects which are currently planned will go forth as intended without any interference as a result of the YCCL. The present project backlog will not be affected due to the use of recreation machines monies versus AAFES dividends.

The Yongsan Community Center and Lodge is a tangible expression of the Army's commitment to provide for the "whole" soldier with an emphasis on family needs and as such pioneers a new concept in MWR facility design.

Question: Many of these resale projects being proposed would impact on commercial off-base businesses. What analyses do your regulations require to determine this impact? Is this impact factored into the decision making process?

General Joyce: Army regulations require that an assessment of locally available facilities and services be conducted prior to entering into an expansion program. Each installation is responsible for this assessment on a regular basis. This analysis includes patron surveys, demographics, and marketing data, a family inventory that encompasses on and off-post services, human resources inventory, and a review of fund availability. The decision to proceed with any project is based upon careful review of these factors in a rational, prioritized manner.

Question: Your statement mentions that the Army has established a benchmark for setting MWR fees and charges that is approximately 80% of their civilian counterparts. Yet, on many installations the fees and charges are 40-50% below the civilian market. Do you have a method for identifying those installations that are substantially below the benchmark?

How do your intend to get commanders to set more reasonable charges?

General Joyce: The technical training and assistance teams, as part of their routine visits, conduct price comparisons of on-post MWR fees and charges with those off-post for similar and comparable activities. As far as getting commanders to set more reasonable charges I believe this is an on-going effort through our self-sufficiency initiative. For the MWR program to be able to meet its own capital purchases and minor construction expenditures as well as operating expenses, it becomes essential to match income with total expenditures, probably causing fees and charges to increase where they are unreasonably low.

To this end we published in March, 1984 a handbook titled "Pricing and Performance Guidelines" to assist in establishing fair and reasonable prices. ~~But I must~~ point out that this handbook is only a guideline and not mandatory. Allowing the commander on the ground flexibility in financial management is, I believe, essential to the overall MWR program.

However, it is possible that for some installations fees and charges would be much lower than the outside if outside prices are substantially higher than normal, e.g., those installations located in traditional tourist areas.

Question: As mentioned in your statement, the Army is planning to use a portion of its slot machine revenues to fund projects at Fort Drum, Yongsan, and other locations.

What was the initial plan on how to distribute these profits? Has that distribution scheme been changed?

General Joyce: The Army's initial plan to distribute slot machine income provided for an equal, three-way split of profits between HQDA, overseas MACOMs and participating installations/communities.

Funding the cited unique MWR requirements from the Army Recreation Machine (ARM) Fund has no impact on the distribution of ARM profits; the current three-way distribution remains in effect.

After the ARM Fund is in a cash position strong enough to meet internal and external needs, we feel it proper to distribute the HQDA one-third share of ARM profits to the overseas MACOMs and installations/communities which generated the profits. Decision on such disposition of profits will ultimately be made by the Army MWR Review Committee (MWRRC).

Fort Drum MWR NAF projects will be funded wholly from the HQDA share of ARM profits, as approved during the May 1985 MWRRC meeting. While this deviates from the proposed plan for disposition of HQDA profits, the MWRRC approved funding Fort Drum with ARM, reflecting the concern of senior Army leaders that adequate MWR facilities are available commensurate with the sizable population increases, and given the reasonable expectation that sufficient appropriated funds would not be available in time to meet the population's needs. As the Army MWR Fund is fully committed to alleviating the regular NAF MWR major construction backlog, the MWRRC's recourse was to look to the ARM Fund for the needed support.

The HQDA share of ARM profits will partially fund AFRC, Europe (additional funding from the HQ, USAREUR share) and the Yongsan Community Center and Lodge (additional funding from the HQ, EUSA share and from local resources). This is in consonance with the proposed plan for HQDA profits.

Question: The Army has a number of projects coming up that are going to need major amounts of money, including a large community complex in Yongsan, Korea, the Armed Forces Recreation Center in Europe, and potentially even Ft. Wainwright in Alaska. Your statement indicates that the Army is going to fund these facilities with slot machine revenue. Please provide for the record a 5-year summary showing projected revenues, distributions, amounts available for construction and expected projects to be funded.

General Joyce:

1. The requested summary for the record is provided on the attached charts (1-3).

2. Funding sources:

a. Fort Drum -- HQDA share of ARM profits.

b. Yongsan -- HQDA and HQ, EUSA shares of ARM profits, plus $8 million local resources.

c. AFRC, Europe -- HQDA and HQ, USAREUR share of ARM profits.

d. MACOM/installation capital expenditures -- MACOM and installation shares of ARM profits.

3. Projections are subject to change as design/construction estimates become more definitive.

4. Funding requirements of AFRC, Europe will extend beyond the period under review.

ARMY RECREATION MACHINE (ARM) PROGRAM

SUMMARIZED PRO FORMA INCOME STATEMENTS

FY 86 - FY 90 ($M)

	FY 86	FY 87	FY 88	FY 89	FY 90
REVENUES	36.6	36.0	36.4	37.0	36.8
EXPENSES	12.9	12.9	13.0	13.3	13.1
NET INCOME	23.7	23.1	23.4	23.7	23.7

1

ARMY RECREATION MACHINE (ARM) PROGRAM

PRO FORMA DISTRIBUTIONS

FY 86 - FY 90 ($M)

	FY 86	FY 87	FY 88	FY 89	FY 90
HQDA	7.9	7.7	7.8	7.9	7.9
HQ, USAREUR	5.0	4.9	4.9	5.0	5.0
USAREUR COMMUNITIES	5.0	4.9	4.9	5.0	5.0
HQ, EUSA	2.7	2.6	2.7	2.7	2.7
EUSA GARRISONS	2.7	2.6	2.7	2.7	2.7
HQ, USARJ	.1	.1	.1	.1	.1
USARJ GARRISON	.1	.1	.1	.1	.1
HQ, FORSCOM	.1	.1	.1	.1	.1
PANAMA	.1	.1	.1	.1	.1
TOTALS	23.7	23.1	23.4	23.7	23.7

NOTE: DISTRIBUTIONS ARE HELD IN TRUST AT HQDA, AND ARE AVAILABLE ON CALL TO INSTALLATIONS/MACOMS FOR MWR CAPITAL EXPENDITURES.

2

ARMY RECREATION MACHINE (ARM) PROGRAM

PROJECTED APPLICATIONS OF CASH AGAINST CAPITAL EXPENDITURES

FY 86 - FY 90 ($M)

PROJECT:	FY 86	FY 87	FY 88	FY 89	FY 90
FORT DRUM	5.8	9.0	2.2	0.0	0.0
YONGSAN COMMUNITY CENTER AND LODGE	12.5	12.3	2.0	0.2	0.0
AFRC, EUROPE	3.0	2.5	3.7	16.2	17.3
MACOM/INSTALLATION CAPITAL EXPENDITURES	9.0	9.0	9.4	10.0	10.5
TOTAL	30.3	32.8	17.3	26.4	27.8

NOTES:

1. CASH APPLICATIONS PROJECTED ON A CASH FLOW BASIS. PROJECTIONS ARE BASED ON INFORMATION PRESENTED TO THE ARMY MORALE, WELFARE AND RECREATION REVIEW COMMITTEE (MWRRC).

3

Question: What have been the total Nonappropriated Fund reimbursements to the Corps for Nonappropriated Fund Construction support under the agreement since its signature by fiscal year?

General Joyce: The agreement was signed 1 November 1981. Nonappropriated Fund reimbursements to the Corps under this agreement have been:

a. Fiscal year 1982	$1,145,622
b. Fiscal year 1983	$2,732,766
c. Fiscal year 1984	$3,650,520
d. Fiscal year 1985	$7,084,912

The above figures represent a compilation of information extracted from historical subsidiary accounting records of the Army Morale, Welfare and Recreation Fund for payments made in the continental United States, and estimates based on overseas Major Commands' requests for Nonappropriated Fund construction reimbursements.

Question: We understand that the HAC Mark reduced the Army MWR program by $24,500,000. What would be the impact of the cut?

General Joyce: The proposed $24.5 million reduction in Morale, Welfare and Recreation (MWR) funds would have a considerable impact on the Army's commitment to improve quality of life for soldiers and their families. Since this cut would be in addition to an earlier $10.0 million Congressionally mandated cut to family programs, the full impact of the reductions would be devastating.

The FY 86 family initiatives underline the Army leadership's resolve to improve living and working conditions in military communities. The blend of family initiatives and MWR activities provide a balanced and effective program to fulfill the Army's quality of life needs. The FY 86 funds initiated basic family programs and sustain present appropriated fund support for MWR programs. The Army is not requesting these funds to offset the increased use of nonappropriated funds (NAF) for MWR construction, but rather to use appropriated funds as authorized by DoD in consonance with the MWR Panel's position that MWR activities would be supported by both taxpayer and NAF dollars. The combined cuts greatly skew what little balance exists in funding support for Non-appropriated Fund Instrumentalities (NAFIs) and will ultimately reduce the scope of family and MWR programs for our soldiers and their families.

Should this proposed cut be directed, some combination of the following actions can be expected:

a. A reduction in the $17.3 million FY 86 family program initiatives.

b. A reduction in scope of current installation level support for library, recreation and physical fitness programs in terms of reduced services, operating hours and/or essential staffing.

c. Additional increases in fees and charges to soldiers and their families for MWR programs.

d. Reductions in the non-appropriated fund construction program. Non-appropriated funds previously earmarked for construction would be used to finance the program gaps caused by the loss of appropriated funds.

Question: The consolidation plan for the Armed Forces Recreation Center (AFRC) in Europe is projected to cost $80 - $120 million. Your statement mentions the Air Force has been contacted to provide a portion of the funding for the future AFRC project. What will be the Air Force portion and what has been the Air Force reaction to date?

General Joyce: Secretary of Army (SA) sent a memorandum to Secretary of Air Force (SAF) on 24 Sept 85 requesting his consideration to share the cost of construction and renovation of the AFRC. Army's proposal to Air Force was that its share in the cost of this project would be proportionate to their potential user population. A figure of 30 percent of the project cost was proposed. We have not yet recieved their reply.

Question: The initiative to build fast food facilities will generate millions of additional profits each year. How are these profits being shared and distributed? What can the profits be used for?

General Joyce: The Army and Air Force Exchange Service (AAFES) dividend distribution policy is determined by the AAFES Board of Directors. The current policy is that 50 percent of AAFES net earnings are distributed to the Army and Air Force for MWR programs. Based on the memorandum of agreement with AAFES for the Burger King Program, the Army has elected to distribute its share of Burger King monthly profits directly to the installation involved. AAFES then reduces the Army's total MWR dividend distribution by the amount of Burger King profits retained by Army installations. The installation commanders use these Burger King profits as a primary revenue element in their Installation Morale, Welfare Recreation Fund (IMWRF), a single nonappropriated fund (NAF) fiscal entity for the installation. The IMWRF revenues from all MWR programs including Burger King are applied against the Commander's prioritized needs for the installation's community and family programs. This can include such things as capital purchases, minor construction projects, and contributions to NAF major construction programs.

Question:

The Army is starting from scratch in designing and building Ft. Drum. It seems the ideal project to build as many multipurpose facilities as possible.

How many multipurpose facilities will be built? Please provide the plans for Ft. Drum for the record.

General Joyce:

We have been able to take advantage of the Ft. Drum situation and have tried to locate our community facilities where they can best relate to each other. We have several complexes where program/user related facilities are located. For example, the recreation complex will include bowling center, recreation center, skill development center, theater, physical fitness center (gym), library, etc. A family activities center will include a chapel, religious education center, child development center, and youth center. Other clusters include retail facilities and rental/repair facilities. Attached for the record is a site plan showing all the clusters and the Community Facilities.

Question: You have served on the AAFES Board of Directors for a number of years. Please share your insights with us about the AAFES construction program. Is it true, for example, that AAFES wants to spend $40 million on a new Distribution Center and another $100 million on new Burger King outlets without reducing its own construction program? Where will all the funding come from? Do all of these construction plans threaten the level of dividends for your program? If so, what adjustments do you see in the future?

General Joyce: It is true that AAFES is building a new Distribution Center (Project Real) and new Burger King outlets. AAFES decides what the funding method will be. I understand that Project Real is being funded from internal cash sources. In 1983, AAFES established a sinking fund for the cash needs of Project Real. This fund should meet the first year cash needs for the Project. Subsequent funding will have to be from cash generated primarily from earnings. The Burger Kings are being funded from internal sources also, but funding can be obtained, if necessary, from Burger King under the provisions of the Burger King contract.

The level of dividends may be affected. However, I hope that the impact will be lessened by increased income generated from Burger King and savings from Project Real. Other AAFES construction projects may have to be postponed if money is not available. Earnings retained by AAFES, however, pay for those construction projects and the dividends distributed to the Army pay for Army projects. Construction plans will then have to be adjusted according to the amounts received.

Question:

The time and cost it takes to construct our basic business facilities really appears excessive. The Army, for example, takes 4 years to design and build projects like clubs, bowling centers and commissaries.

What is being done to reduce the time and cost for these projects?

Have you ever considered bypassing military construction channels and hiring a civilian firm that specializes in grocery stores or restaurants to build these facilities?

General Joyce:

We are constantly looking for ways to reduce the time and cost for building our NAF-Funded facilities. In fact, this issue is on the agenda for our next meeting of the MWRRC. Generally, we take about three years from the time we start designing a project until we turn the key over to the user. This is pretty close to the timeline for our MILCON projects, which can be expected, I suppose, as the Army Corps of Engineers executes both MILCON and NAF. As we continue to increase our breadth of projects, our track record can be expected to improve, as we try to use standard designs whenever possible, those which have been proven to work. That should save some time and money. We will continue to try to reduce costs and provide MWR facilities as quickly as possible. Our overall considerations will certainly not rule out the use of civilian firms who specialize in our type of facilities. Please note, however, that we now use civilian firms to design and construct our facilities, under contracts with the Corps of Engineers.

Since January 1985, in coordination with the Corps of Engineers, NAF projects now use "brand name or equal" specifications for equipment and are exempt from "Small Business Set-aside" provisions. This action eliminates time previously spent for developing "guide specifications" and mandatory negotiation time associated with "Small Business Set-aside" contracts.

Question:

McDonald's and Burger King are building their outlets on installations in less than a year. It takes the government several years to build commissaries and MWR facilities.

Have you analyzed why these commercial firms can be so responsive?

Are there any lessons to be learned from the fast food construction?

General Joyce:

After congressional approval, AAFES is constructing the Burger King facilities on Army and Air Force installations world-wide not Burger King. They are able to reduce the time required for design and construction for the following reasons:

-AAFES dedicates necessary resources to complete the Burger King restaurants.

-There are presently three standard Burger King designs with plans and specifications site adapted by Burger King. Architectural features (facades, brick, doors, etc) are standard and there is no local option to vary from these standards.

-The buildings are relatively small in size, are normally freestanding and can be located on a relatively small site.

-All equipment is pre-selected and purchased only from sources approved by Burger King.

-Contractors who specialize in construction of the fast food restaurants are invited to participate and submit bids.

There are several major differences between AAFES Burger King projects and MWR projects in terms of method and process.

-MWR facilities are designed and constructed through the US Army Corps of Engineers. As an Army organization with government-wide responsibilities,it designs and constructs facilities to US Government standards. Army MWR projects are subject to the Department of Defense Construction Criteria. Although many Army Facilities are designed from a standard floor plan, the DOD criteria requires that the structural, mechanical and electrical designs be revised or developed for the particular site. Since AAFES does not use DOD criteria, but standard commercial design, plans and specifications do not have to be developed or significantly revised for each facility.

Installed equipment for MWR facilities are procured under the provisions the Federal Acquisition Regulations (FAR). This not only takes time to develop the generic "guide specifications" required by the FAR, but it causes modifications to construction contracts when there are differences between the equipment planned and that actually occurs. Since AAFES is pre-selecting and purchasing equipment from specific sources approved by Burger King, they are using "Sole Source" procurement. This reduces the need for guide specifications and also reduces contract modifications for equipment driven changes.

Most MWR buildings are significantly larger in size than a Burger King. The usual MWR facility is two to ten times larger because of the broader scope of facility types. The larger the building, the longer the design and construction time. However, several MWR projects of a similar size and designed for a single purpose, similar to a Burger King, have been constructed in less than one year. Examples of these can be seen at Ft Carson, Ft Monmouth, Ft Buchanan and Ft Jackson.

Architect/engineering contractors for MWR projects are selected by the Army Corps of Engineers contracting officers' based on the recommendations of a review board. The criteria for selection varies from Corps District to Corps District both in factors used and the weight given to each factor. Several districts, regardless of the facility type or complexity, give the heaviest weight to criteria factors of proximity of the contractor to the site and the track record of the contractor with other government projects. Contractors are not necessarily selected for their expertise in a special field. In addition, most Corps Districts do not individually invite contractors to submit bids. The only means of solicitation is to place an advertisement in the Commerce Business Daily.

MWR projects, in terms of speed of design and construction, can benefit if commercial construction criteria are used rather than DOD construction criteria; brand name equipment specifications are used rather than guide specifications; and if contractors were selected for their expertise with the specific project type. However, most MWR projects, regardless of criteria, contractor expertise or procurement process, will take longer to construct because of the larger size and the broader range of facility types.

Question:

The panel has seen a number of projects that continually change during the project's life. These changes stretch out the project and increase costs.

What can be done to reduce the number of changes once a project is designed? Is there a point in the building cycle where the design should be finalized and only emergency changes allowed?

General Joyce:

We are continuing to try to reduce the time and cost for our NAF construction program. We are emphasizing to the users that identification and development of their requirements during the planning stage will reduce changes, and therefore costs, and speed up the design process. I try to send a member of my facilities office to each pre-concept design meeting to assist in getting started properly. We strongly discourage changes after 35% design and generally require users to pay for any changes they want to make after that point. We are getting better and expect this to continue.

Question:

The Army has quite an extensive backlog for MWR Facilities including some very basic needs in places like Korea. Why, then, are these 3 Class VI Stores totaling almost $4 million in this year's program?

Is this the result of your "Bottoms Up" selection process? Shouldn't you be setting Army-Wide priorities to fund the most needed projects?

General Joyce:

These three Package Stores and Consolidated MWR warehouse represent only about 3% of the FY86 MWR NAF construction program as submitted. They will replace temporary, WWII facilities and result in improved economics and efficiencies. From a truly business standpoint, these types of facilities provide the most return on investment of all in our program. We need to provide a certain level of balance in order to generate income to support other MWR programs. Therefore, our construction program will have some revenue generators as well as some revenue users (service providers). In addition, we try to take advantage of siting opportunities. For example, the Fort Jackson project is to be located in the community center, where the "one stop"shopping concept is being developed. The Fort Lee project is to be located adjacent to the commissary. (ROI, financial info attached).

	SALES	COST OF GOODS	GROSS INCOME	LABOR	OTHER EXPENSES	TOTAL OPERATING EXPENSES	NET INCOME FROM OPERATIONS	NET INCOME BEFORE DEPRECIATION	TOTAL DEPRECIATION	NET INCOME
FT JACKSON	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT BLISS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT LEE	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Question:

General Chavarrie's predecessor, LT. Gen. Tice, had a consultant review MWR construction. The 1983 study found:

--Facilities were too large and too abundant;

--Facilities were being built by personnel with questionable planning skills;

--Fees and charges were much lower than those in the civilian sectors; and

--Guidance on fees and charges was unclear and conflicting.

During the last few years the panel has found that these problems continue to exist. What have you done to get these problems corrected?

General Joyce:

The Army cannot agree that its MWR Facilities are too large and too abundant. Army MWR programs have generally been housed in existing facilities, many of which are WWII temporaries scheduled for elimination. Some are housed in space which exceeds program requirements. However, it is the provision, or replacement, of this obsolete physical plant with modern facilities, properly designed for their functions that has created the Army's large backlog of MWR construction requirements.

We see that as the problem to be corrected and to that end, the Army is trying to increase the resources available for NAF construction. This new emphasis is now maturing in the development of its review processes and improved prioritization techniques.

During the early rapid expansion of NAF construction, project initiators may have lacked planning skills. Since then, MWR personnel have received training and the Five-Year MWR Program Plan, initiated in October 1982, has matured. These factors, along with increased competition for the limited resources available, is disciplining the system. We are involving functional experts in the design-review to ensure program expertise is available to assist the engineer project managers and their contracted architects.

Fees and charges guidelines have been established and a training program set up to implement them. Follow-up is achieved through assistance visits and reviews of financial data. A great deal of progress has been made in moving the Army's MWR programs into a modern, business oriented approach to its operations from its traditional orientation rooted in the era of the war-time/draft Army.

Question:

The Panel's NAF construction report to Dr. Korb last year noted that we found:

-- Inaccurate data on the 1391's

-- Nonexistent or superficial project justifications, and

-- Poor Long-Range planning.

Our earlier report on 1984 projects noted problems with developing service-wide priorities and excessive construction times.

We seem to be finding these same problems this year. What have you done to correct these problems?

General Joyce:

Those same two reports also noted the large growth in the MWR construction programs and the "significant improvements" in planning, prioritization and project justifications. Those two factors of program growth and continuing improvement still apply. However, we feel that our improved guidance, personnel training, experience and better prioritization/review systems have resulted in a more competitive environment. The installation's Five-Year MWR Program Plans, instituted in October 1982, are now maturing. A more objective prioritization matrix is being successfully applied to the FY88 program. We have come a long way in reducing these problems and expect this progress to continue as our programs and personnel mature in the many new emphases the Army is pursuing in MWR.

Question:

In 1980 the GAO found that some MWR facilities were larger than needed, inadequately planned and/or did not have a documented need. The GAO's findings pertained to all the services.

What did the Army do to improve its construction program as a result of the GAO Report?

General Joyce:

The Army increased its command level involvement by forming a General Officer Steering Committee, the MWR Review Committee, to serve as a Board of Directors for the purpose of formulating policy and program goals and to strengthen HQDA and major command involvement in the process.

Key results have been the increased resourcing of MWR construction; requirement of statements of actual need to realistically size facilities and involve installation commanders. The Five-Year MWR Program Plan increased long range planning and stability of the program. The Army established a Community Facilities Office in October 1982 to improve review of projects and to assist with execution of design and construction. To assure the best possible cost estimate, projects are not reported to Congress until the design is at least 35% completed. Improved guidance, personnel training, improved project review/prioritization systems are ongoing in order to refine the process and improve the construction program.

Question:

You have several Guest Houses in this year's program. What is the rationale for the military building these Guest Houses? Are you in competition with the private sector?

What specific market are your trying to attract?

Do these facilities receive any appropriated fund support? What is the average fee, and how are fees set?

General Joyce:

The Army has long provided reasonable cost, transient housing for families during reassignments. These facilities were provided to assist these families during difficult times when expenses were greatest. Many facilities are old, less than adequate, but are close to exchanges, commissaries, MWR facilities. This helps considerably since often families have shipped their automobiles and have limited transporation. We do not consider our Guest House program to be in competition with the private sector. In fact, when we consider a Guest House project, we discuss it in advance with the local hotel owners or associations. Our primary market is the lower paid soliders. Building maintenance and utilities (OCONUS) are authorized to be funded with appropriated funds. Fees are determined locally based on costs, and generally range from about $4 - $20, per day based on age of facility.

Question:

Last year the panel approved several multipurpose fields in the DMZ in Korea with the provision that the services should seek taxpayer support for future projects. As you know, these fields are located at combat bases where there are no dependents. The fields will probably be used for training as much as recreation.

What is the army position on funding these fields? What is the army doing to develop balanced construction programs that include "people" projects as well as operational projects?

General Joyce:

Our request to fund these projects with NAF was submitted in accordance with the DOD funding policy. We recognize that there is some opposition to using NAF for projects such as these, but also recognize that other Congressional Committees often take an opposite view and express concern that other MWR facilities should be funded with NAF rather than APF. (For example courts built with gyms and child care centers). Most of our MWR facilities are used by the army family and soldiers. In the area of sports, we see both aspects, fitness and readiness, as well as recreation. We will continue to try to support our soldiers and their families to the maximum extent possible within DOD policy.

Question:

In the past, the Army constructed nonappropriated fund projects using what is known as the "Turnkey" approach. When was that approach dropped,and why?
Has the Army considered returning to that approach?

General Joyce:

The type of "turnkey" construction used by the Army is known commercially as "design-construct" with furniture, fixtures and equipment (FFE) included in the construction contract. Whether or not FFE is included, the basic concept of "design-construct" is to develop, advertise and award a single contract to complete a concept design and construct the facility. In most instances design and construction is taking placing simultaneously, thereby saving time and reducing contract modification costs for design errors.

This approach is being phased down with the FY85 program for two primary reasons. The first reason is because of the reporting requirement and congressional approval cycle, which actually causes a delay in the start of construction. After receiving congressional approval to start, it takes approximately six months to advertise, award and design enough of the facility to begin construction. Under the traditional method of two separate contracts: design to 100% and then construction, design can be completed while the project is going through the approval process. Once approval is granted, the project can be advertised, awarded and construction begin in 60 to 90 days, assuming 100% design completion. The second reason is that the Corps of Engineers experience with "design-construct" is, limited due to a turnover of project managers.

The Army considers "design-construct with each year's program, however, when the experience factor is overcome, the congressional reporting and approval cycle presently makes the use of this method counter-productive. However, the rapid expansion for NAF construction is about over. The maturing Five-Year MWR Program Plan will make it possible in the future to submit "design-construct" projects one-year earlier to the Congress, as it is presently done in the MILCON, to remove this major obstacle to effective use of the design-construct method.

Question:

At what point in the design process are no further changes permitted?
If such a point has not been defined, Why?

General Joyce:

The MWRRC in June 1985 initiated the policy that no further changes are permitted after the concept design (i.e. 35% design level) is finalized. The policy further states that; should a user desire to make a change to the design after the concept (35%) design is complete, the user must provide the necessary funds to make the change from installation resources. This policy does not apply to changes which are required by differing site conditions or unexpected problems uncovered as the design proceeds.

During the design phase of the FY87 program, the Army has observed that as a result of this policy, no changes to concept design have been requested so far.

Question:

The Army backlog of MWR projects is about $1.8 Billion while revenues are limited. Ft Carson, Colorado, has a $3.7 Million project for an outdoor recreation facility. The proposal has $1 million in site preparation cost associated with it. It is the panel's understanding that this cost is to clean up an underground fuel storage site. Why should soldiers' dollars be used for this purpose?
Has Ft. Carson considered alternative sites to reduce this cost?

General Joyce:

During the concept design process, various site conditions were identified and cost estimated. Since that time, the site was shifted many feet to avoid the underground fuel storage site. While this shift avoided the high costs of removing the fuel storage tanks, it could not avoid the high costs associated with construction in the Ft Carson area, the size and use of the facility. In general, the soil conditions in the Ft Carson area are unstable and elastic. Therefore, extensive excavation, backfill and special foundations are required. The facility itself, because of the outside storage needs, requires extensive paving to accommodate rental recreational vehicles, automotive traffic and patron parking.

There are many concrete piers on the site, but these will be removed by Ft Carson. By policy and regulation, the site preparation costs are direct costs of construction and must be funded as part of the project.

Other sites were considered and eventually rejected. The planned site of the facility is located in an MWR complex which has a wood crafts shop, automotive crafts shop and supporting MWR administrative facilities. In addition, the poor soil conditions and the paving requirements would not be avoided in any of the other possible sites.

It must be noted that site preparation consists of not only clearing the site, but compaction of the sub-base material, excavation, drainage, utilities, finish grading, land scaping, signage, roads and walkways, paving and striping, and any other items that are located outside of the building.

Question:

Your statement mentions Class VI Store projects. One package store project submitted for this year has an estimated cost of a million and one half dollars. Please explain the concept behind these combined facilities and what percent of the cost and size is for warehouse vs package store. Please provide floor plans for the record to show what we are building into these Class VI Stores. Please provide to the panel the analyses reflecting these savings at Ft. Rucker.

General Joyce:

We believe the Rucker Package Beverage Store is indeed a good initiative and a concept we would like to perpetuate. We have discussed this concept with your staff and provided them with periodic updates on the financial results there. Let me summarize the financial results for the first full year of operations at Rucker, 1 March 1984 to 28 February 1985:

Cost Savings	$58,830
Increased Income	63,473
Total Increase	$122,303

At a cost of about $900,000, this increase will result in a payback of 7.4 years. The facility is a pre-engineered metal building of about 15,000 square feet. A little over a third of the area is retail sales area, with the remaining as warehouse and support. Less than half of the total cost can be attributed to the sales store. This is pretty representative of the other consolidated warehouse/package stores in our program.

The basic concept is that the warehouse will serve as a consolidated warehouse for all MWR activities.

Question:

What is the actual rate of execution for the nonappropriated fund construction program for approved projects for FY83, 84 and 85? Who monitors the execution rate?

General Joyce:

The execution rate for the FY83, FY84 and FY85 programs are as follows:

FY	No. of Projects	PA $0.M	Design 35%	Design 100%	Contract Award	%
83	23	32.8	All Complete		Complete	100
84	44	66.6	44	44	43	97.7
85	54	82.1	54	48	40	74.1*

*Note: 11 projects delayed for HASC study, 3 projects deferred by HASC

Project design, execution and funding are monitored by the Community Facilities Office, USA Community and Family Support Center. Five project managers have been assigned to work with the Corps of Engineers Districts that are authorized to design and execute NAF projects. They participate in design conferences and monitor/approve funding requests, payment requests and contract modifications. Project managers also provide standard designs or recommended existing designs, if available, to the Corps of Engineer's Project Managers for use during the design phase.

Question:

Evaluate the impact of the DOD sizing criteria and DOD specifications on the Army nonapropriated fund construction program.

General Joyce:

The DOD Manual 4270.1, construction criteria, is written without any bias as to which fund source is used for construction. It prescribes the maximum size a facility may be for each facility type in accordance with a specific formula for demographics or other factors.

The Army requires in addition to the regular project justification, a Statement of Determination of Actual Need signed by the installation commander to justify the sizing needed and reflects other alternatives considered.

In most cases the DOD criteria space allowances are ample enough to meet program needs. When they are not, an exception may be justified or a change made. For example, a change to the sizing of Guest House/Temporary Lodging Facilities (TLF) is now being processed to reflect current sizes for rooms to accommodate family usage with kitchenettes and twin double beds.

Other criteria are more stringent than one would encounter in the commercial world because the Corps of Engineers builds for a longer life expectancy. This results in poor cost comparisons for government construction in contrast with the highly specialized business community such as motels, fast food restaurants and child care facilities.

Mr. **Daniel**. The panel stands in recess for 5 minutes while we set up some equipment.

[Recess.]

Mr. **Daniel**. The panel will resume.

The next witness was referred to us by our very distinguished and able colleague from Florida, Mr. Hutto. Let me say that we are delighted to have you with us. We need more of this type of presentation, and we are deeply grateful for your attendance.

Mr. Hutto.

Mr **Hutto**. Thank you, Mr. Chairman.

I am sorry I have not been able to be with your panel since I had another obligation this morning. I do take great pleasure in introducing one of my constituents, Mr. Neil Liechty of the Magnolia Boyd Co. down in Pensacola, FL.

I have known Mr. Liechty for a few years and know him to be an outstanding young businessman and builder in the Pensacola area. He has combined with Mr. Bob Sohn, to build Hospitality Inns. They are making a presentation today to show you what they can do to provide temporary lodging facilities for military personnel and their families.

So, we are delighted to have both of you gentlemen, and, Mr. Chairman, in addition to seeing what they can do in the way of building, maybe they will have a few scenes of the world's most beautiful beaches in and around Pensacola, FL.

Thank you, Mr. Chairman.

Mr. **Daniel**. Before we commence, will you gentlemen who have already testified come sit up here so you can see these presentations? We would be glad to have you sit up at the table here or occupy those chairs, whichever you would like to.

Again, gentlemen, we are delighted to have you with us, please proceed.

STATEMENT OF NEIL LIECHTY, MAGNOLIA-ANGELES CORP., PENSACOLA, FL, ACCOMPANIED BY ROBERT L. SOHN, SENIOR STAFF ANALYST, REAL ESTATE BUSINESS DEVELOPMENT, ANGELES CORP.

Mr. **Liechty**. Thank you, Mr. Chairman, Congressman Hutto, other members.

I appreciate the opportunity to testify today. I will first introduce Mr. Sohn, who will be presenting our thoughts on the temporary housing needs of the military, and our approach for solving this difficult issue.

I am Neil Liechty, president of Magnolia-Angeles Management Corp. I am responsible for the original design and concept of the Hospitality Inns of America. Mr. Sohn, from the Angeles Corp., has been working with me and the Magnolia team to develop the Hospitality Inns chain.

Angeles is a financial-management company that finances and manages the Hospitality Inns properties for our investors. I would like to state that we agree with the Department of Defense, and the Army, about the complex difficult problems facing the military in providing suitable, affordable, temporary housing facilties.

We have encountered these problems, and many more, first hand through our Hospitality Inn operations and can attest to their urgency. We believe that private developers can immediately provide an answer to the temporary lodging problem by:

One, developing, financing, and operating Hospitality Inn facilities in critical military housing areas. All to be built off-base, without tax dollars through a competitive bid system.

Two, an agreement is critical for both parties. We have first-hand experience on this and I will go into it a little more detail later.

I will describe at this time a typical Hospitality Inn development in operation, with a short VCR tape, then Mr. Sohn will discuss specific arrangements through which these inns can be brought to bear on military temporary lodging needs.

This particular inn was built in Pensacola, and opened May 1 of this year, at a cost of less than $22,000 per unit. That is total costs, parking and facilities. Everything is included from land and construction costs, to interest.

We built it and designed it to look like a home, not like a cracker box operation. It is truly a home-type environment. It is an all-suite motel concept. That means that there is a partition between the living quarters and the bedrooms, which gives much needed privacy.

This particular lady is a commander in the Navy and teaches out at NAS. Her husband is on a ship right now, and she has two children. They have been with us for 6 weeks and happened to be there last Friday when we were filming this. We are running basically 95 percent plus occupancy since the day we opened. This is the fourth such operation we have.

You will notice as you enter through the leaded doors, we try to give some accents of home, a little bit more of a homey environment than most motels try to offer. We have a traditional check-in, and the lady at the desk will describe to the military people what is available in Pensacola. This is the first stop, and she tells them what discounts we have set up for them. We have local restaurants that give 10 percent off their food, and local grocery stores that give 5 percent off.

So, we describe that to them, and then welcome them, give them a real hearty down-home welcome.

You can enter through your own private patio or you can enter through the main hallway. We have inner hallways and outer.

This particular area, as you enter the unit or suite on the right, you will see a desk. Our desk is 8 feet in length with a double set of drawers. This is especially useful for the officers that are in training or in school. There are a lot of schools being offered at NAS. So, this is why we try to specialize for particular needs for each area. It might change from time to time depending on the emphasis.

Across from the desk area, you will see a sofa sleeper, queen size, 6-inch mattress, and a lounge chair. This allows the extra bed in the unit.

One thing you will notice, we do all of our hiring for all of our maids through the family services at the local base. And, through the chaplain. We take their referrals on people coming in that really do have a money problem. Usually it is your E-2's, 3's or 4's that are there for temporary duty, and do not have the resources, even at a $19.95 per night price to stay here, because of some former commitments. But, we do all our hiring for our maids and for our maintenance from the local base. We do it on just a verbal agreement. If the housing office has somebody that they refer to us who qualifies, we will hire them.

This particular lady is extra sensitive to the needs of the people because they have just come in and she knows exactly what the needs are for the military.

So, we really like that program. The main bed is a queen size murphy bed that folds back into the wall allowing for a 24-foot living room during the day. So, there is plenty of room for children to play if it is raining. You have a 22-foot living room with a sofa sleeper and a lounge chair in it, because the bed does go back into the wall.

At the opposite end of the room, we have a full kitchen. Each suite has this which includes a microwave, toaster oven, coffee maker and a full refrigerator. They can prepare all their meals right there which is a tremendous savings. Normally motels and temporary facilities do not offer this.

We quadrupled the size of the closets because people come in with a lot of extras and are going to stay for a longer period of time. We have over 10 feet of continuous closet space in each unit.

The table folds up out of the wall, and it seats three persons. We also use the desk as a temporary table if they happen to have four children. We do not charge for children under 18. We have simply one price and give discounts if you stay more than a day. We have a weekly and a monthly discount.

No entrance fees, no utility charges. Everything is there. Knives, forks, spoons, everything. This is a picture of our center hallway.

This area is the most important part of our concept, the commons area. Over 2,000 square feet of commons area for the family. This is where we serve their free nutritious breakfast each morning. The breakfast includes waffles, bagels, english muffins, raisin toast, four kinds of cereals, milk, coffee, fruit, and juice.

This area is well lit, has a skylight, and cathedral ceiling, all the colors are done in the mauves, the greens, the latest of everything. It is a real cheerful place for them to come out in the morning and enjoy their breakfasts.

This is something that we provided for less than 60 cents per person per day. If you would go on the open market, you would have a cost of, $4, probably $5 to $8, even for a family of four at a local fast food restaurant.

All they want to eat. They can carry it back into their room. Of course, they can cook in their own rooms or they can eat in our commons area. Most of them choose to do so; 98 percent use it. It is very nice. If their husbands get up and go to the base in the morning, the wives and children come out later and enjoy their breakfasts. This is also the area where we have the free popcorn starting at 5 p.m. We found that little amenity costs a nickel per room and it is really enjoyed by our guests.

Along with the free popcorn, which starts every evening at 5, we have a free movie, a children's movie on a 50-inch screen. The children's movies consist of a Walt Disney movie at 5 and we have adult movies every evening at 7, which is PG rated. We try to control what kind of environment our guests live in.

This is another military couple that has been with us now for about 6 weeks. Total cost to this particular couple would be $597 a month, including utilities and the free breakfast for 30 days a month. The big problem with temporary housing is deposits and furniture.

So, we try to make it very feasible to enjoy it. We also have our own satellite system. This is important because we can control what kind of movies our residents are viewing. I believe in the family. I believe in the moral issues of our land. We have the sports channel and the local channels, but we can control what kind of environment we have in our units. So, children are not watching TV during the day when their folks are gone.

We have books, games, puzzles. On a rainy day, that place is completely full of children playing, relaxing, in our commons area. All of the glass overlooks our adult outside gardens and the children's playground.

This is a copy of the commons area where you come out into the adult area. We have four gas barbecue grills, bench seat swings. We try to incorporate a lot of beautiful landscaping. This particular area is the adult area with the gazebo and an area for Sun bathing.

Most of the units are centered around the courtyard, so you have a home—this is a home-type garden setting, and that is our goal. When they come home, be refreshed, enjoy the family and not have to be boxed up in a square room.

Probably our second largest amenity is the children's playground. We do not offer a pool. We found only 2 percent asked for a pool. There are usually pools on bases, but we can have a large family playground. This consists of a well-fenced in area, swings, slides, two story doll houses, sand boxes, tether ball, all of this is in view from the commons area and from our laundry facilities for our guests. So mom can be doing her daily duties or cooking dinner and still watching the children.

Another thing we incorporated, because of the problem that we have found, the recent problem with day care centers and new people coming in the grounds, not knowing who they can trust and who they cannot trust, we have incorporated a babysitting service, very inexpensive, where a certified, bonded person, who is checked out through our local police department, is sent to the facility and she entertains the children in our playground, in the commons area, or in the privacy of their own room, but still it is under our supervision, we can if there is a problem, we can check it.

Instead of just dropping your child off at somebody's house and not knowing their reputation, the playground is very important. The babysitting is also competent—we found that couples, for an extended period of time, like to be together and have their own privacy. So, that is something that we do not make any money from it. It is a service we can offer from the private sector.

Playgrounds are much used. Like the other day, I counted 26 kids out there, most of your E-2's, 3's and 4's have, are starting families. So, this is a much used area and a good way for them to expend their energy instead of in our rooms.

We try to take away all the commercial look of our whole operation from the outside, and inside, to our colors make it truly a home-type appeal.

In closing, I would like to say that we have had two and a half years of experience. We are operating four different types of prototypes to pick the right one for the people, and we are ready, willing and able to provide immediate solutions to the military temporary housing needs, and we hope to provide more than just a place to live, but we want a liveable place to live.

That is our goal. Thank you.

[Statement of Mr. Liechty follows:]

PREPARED STATEMENT OF NEIL LIECHTY AND ROBERT L. SOHN

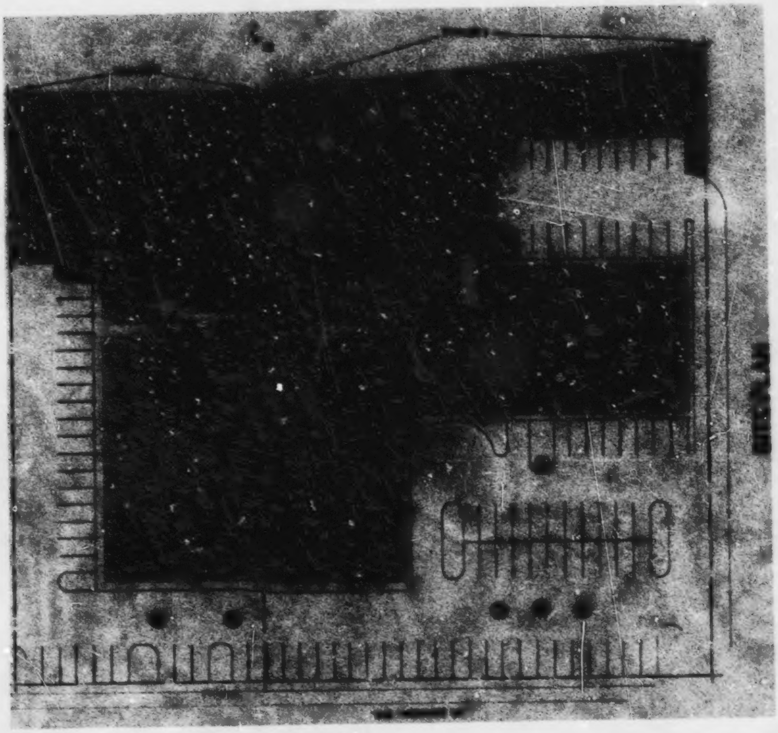
We wish to thank you and the members of the Morale, Welfare and Recreation Panel, Subcommittee on Readiness, for your kind invitation to discuss the use of Hospitality Inns for temporary lodging facilities for military personnel and their families.

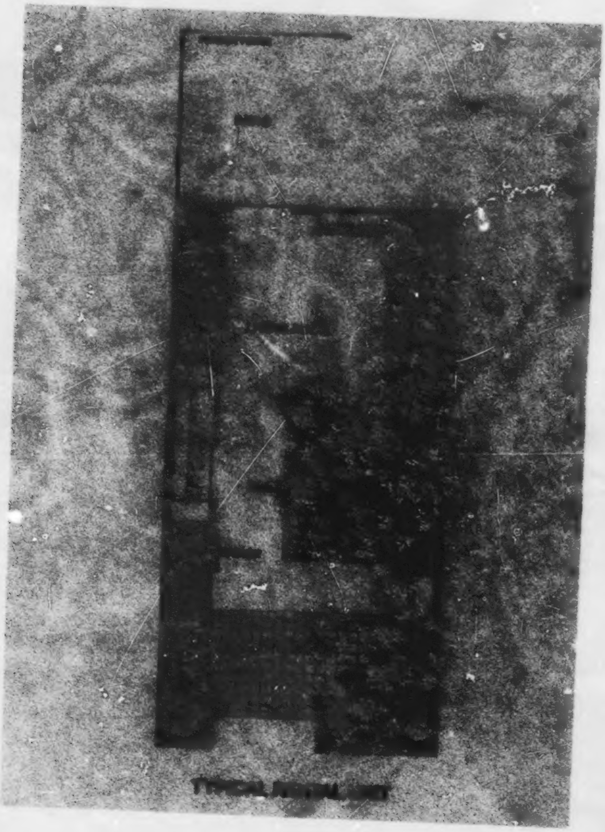
The Hospitality Inns provide family-style living units with kitchenettes for guests staying several days or several weeks. Amenities include a large family activity center with complete kitchen, evening movies, complimentary breakfast, garden area with BBQs, children's playground and individual patios for guest rooms. Shopping, restaurants and transportation are convenient to the Inns. The Inns are located near military bases for the temporary housing of personnel on temporary duty or transferees awaiting or departing permanent housing.

The Hospitality Inns are developed, financed, and operated by Angeles Corporation without government subsidy or preferences. Construction of an Inn can be completed in six to eight months. Rates are similar to those charged for comparable accommodations on military bases. Three Inns are in operation in Pensacola, Florida, with Inns under construction in Jacksonville and Pensacola.

Angeles Corporation is an investment company that provides management and advisory services in real estate, securities, oil and gas, and equipment leasing. Angeles currently manages over $3.0 billion of assets for individuals and major corporations. Mr. Neil Liechty originated the Hospitality Inn concept for Magnolia Builders of Pensacola, Florida, and is currently engaged in developing additional Inns for military, health care outpatient and conventional commercial markets.

We are convinced that the Hospitality Inns are admirably suited to meet the temporary lodging facility needs of military personnel and their families. The Inns can be constructed quickly at low cost with private capital and operated economically to provide affordable and accessible quality temporary housing. We hope that these remarks and the accompanying briefing material will be of use to you and the panel members. We will be pleased to provide additional information upon your request.




TYPICAL

HOSPITALITY INN CONCEPT

Family-style accommodations for guests staying a few days to a few months; kitchenettes; patios; garden courtyard with BBQ; playground; family-style activity center; free movies; full kitchen; complimentary breakfast.

For military personnel on TAD-TDY or change of station.

Affordable, accessible, available.

DEVELOPMENT HISTORY

Very successful 35-unit inn in Pensacola (1983) (near NAS's); 50-unit inn in Pensacola near major medical facility (1984); 80-unit inn in Pensacola near NAS's (1985); 100-unit inn in Pensacola near VA clinic (1986); 120-unit inn in Jacksonville near NAS's (1986).

PENSACOLA PROJECT

80-units on 2-acre site on Mobile highway, 5 miles from 3 major Navy stations.

Style: single story; room size: 24 X 12¾ ft.; shopping, restaurants, transportation nearby; family activity center: 2,000 sq. ft.

Ammenities: private patio for each unit; playground; garden courtyard area with BBQ's; complimentary breakfast; free movie.

AVAILABLE

Cost per unit: $23,000.

Rates: $19.95 to $29.95.

Costs are subject to: land costs; unusual site preparation requirements; availability of utilities; labor rates.

TEMPORARY LODGING FACILITY NEEDS AND PROBLEMS

Needs.—Family-style accommodations for military personnel and their families; affordable, accessible, available; amenities packages for guests staying several days to a few months; access to shopping and transportation.

Problems.—Immediate need at many military bases; long response time for military construction; funds difficult to obtain; high construction costs.

ADVANTAGES OF PRIVATE SECTOR DEVELOPMENTS

Development, financing and operation by private sector; reduced development time (10 months to one year after go ahead); reduced construction costs; facility designed to meet special needs of military personnel and their families; affordable, accessible.

CONSIDERATIONS OF PRIVATE SECTOR DEVELOPMENTS

Off base.—Land costs; lease agreements; availability guarantee to military; remote site protection for private sector; non compete protection for private sector.

Permission to advertise at referral offices.

On base.—Possible occupancy guarantee or buy back; referrals from housing offices.

RATES—SERVICES COMPARISON

	Hospitality Inn	Navy Lodges (Florida)
Guest services:		
Television	X	X
A/C	X	X
Laundry	X	Most
Vending	X	Most
Telephone	X	Few
Hospitality services:		
Complimentary breakfast	X	
Free movie	X	
Playground	X	
Family courtyard	X	
Private patios	X	
BBQ area	X	
Rates:		
Month, single	[1] $19.95	[2] $19.65
Week, double	[1] 27.95	(2)
Day, double	[1] 29.95	(2)

[1] Year round

[2] Average

SUMMARY

Hospitality Inns are admirably suited to meet the temporary lodging facility needs of military personnel and their families.

Inns can be constructed quickly at low cost and operated economically to provide affordable, accessible quality accommodations.

Prices are comparable to on-base accommodations.

ABOUT ANGELES AND HOSPITALITY INNS

Angeles Corporation is a financial management company that provides management and advisory services in real estate, securities, oil and gas, and equipment leasing. Angeles currently manages over $2.25 billion of assets for more than 115,000 individuals and 30 major corporations.

Mr. Neil Liechty originated the Hospitality Inn concept for Magnolia Builders of Pensacola, and is currently engaged in developing additional inns for military, health care outpatient and conventional commercial markets.

Mr. **Daniel**. Thank you, sir.

Mr. Hutto.

Mr. **Hutto**. I want to thank Neil, and Mr. Sohn for coming and being here today. We appreciate your effort to come here and present what you have to offer to the MWR panel.

Mr. **Sohn**. Yes. We do have some comments on specific arrangements by which we think the private sector could be brought to bear on some of the military programs.

Mr. **Hutto**. You are recognized.

STATEMENT OF ROBERT L. SOHN, SENIOR STAFF ANAL T, REAL ESTATE BUSINESS DEVELOPMENT, ANGELES CC P.

Mr. **Sohn**. There are some copies in the hand-outs and rather than show these on the VuGraph, I will just talk through them.

Mr. Liechty, I think, has done a good job of describing the concept that we have for meeting temporary lodging facility needs. It is a very liveable type of a facility.

I think the needs, the temporary lodging facility needs have been described by a number of the previous speakers, and I will not elaborate on those, but if I can summarize, we do urgently need family style accomodations. Forty or fifty percent of the personnel do have families, and there has got to be a good way to accomodate those.

They have to be affordable, accessible and available. And, I have invented a term, which I call a liveability package. I remember testimony about a woman who had lived in a motel with her husband and two children for an extended period of time, 2 to 3 months, and she referred to it as a cell. To her, it was a cell. She said in inclement weather, it was almost unbearable and it very quickly led to morale problems.

And, that is why we emphasized the need to put in a liveability factor, and by that, I mean, a family activity center. The family garden. Playgrounds for the children. Private patios for the individual apartments, and so on.

I would urge anyone in the business of putting up new facilities to meet the demands for TLF requirements these days to build in a liveability factor, and not just make it a cell that it oftentimes ends up being.

We also locate these near shopping and transportation because we think that makes it much more liveable. Mom and the kids can go out for shopping within a few blocks and I think that opens it up from a cell into a more liveable quarters.

The problems, I think, are obvious. There is an immediate need at many military bases. It is a long response time for military construction. Funds are difficult to obtain and the construction costs are probably higher.

Now, there are some advantages of going to the private sector to seek help in this area, and that is a policy in many instances to go out to the private sector for motel-types of accomodations and so on. The main advantage, of course, is that in the private sector, the financing development and the operation is done by the private sector, with no help with financing from the military or Government agencies. I think that is a tremendous advantage.

Reduced development time is another benefit. These facilities can be brought on line within 1 year or less, 10 months. This facility was up and running in about 8 months. Reduced construction costs is a complex issue, and a lot of it has to deal with being able to use civil codes rather than military codes, but the costs for these are very low. They are very nominal.

And, again, I think that one of the advantages you have before you is to make sure that these facilities are designed with liveability factors in them. We know a lot about that now. We have had a lot of experience and we think that should be represented in procurements.

Now, I guess the nub of it is that there are different cases that might come up where we could get involved including both on-base developments and off-base developments.

Let us talk about the off-base developments. The land costs are higher. There is no question about that, and it might add 6 or 7 percent to the room rates, but in some areas of the country, it can add 35 to 40 percent. Fort Ord is a prime example. We went up there and the price of land around there is $500,000 per acre. You may have to consider going on base for that reason, if you want to get it back down into an affordable range.

Now, I think it is absolutely critical that there be established some leasing agreement policies, and I will explain those. There are really two cases. There is a lease that could be set up to guarantee room availability to the military. We will set aside 100 rooms for you for military personnel.

The second case is where you have a more remote site and the motel operator needs some sort of an occupancy guarantee. In other words, the lease would have to provide for some occupancy level. Our experience in Pensacola, for example, dealing with the availability issue, is that we turn away military people, if it is during the peak season. The military personnel come in a little bit late in the evening without reservations, we have to turn them away.

So, I think it is essential for the Government to set up a lease to provide for that availability, and I do not think that there is a significant risk attached to that. It depends on how well the military can estimate their needs for temporary lodging facilities, and General Joyce has commissioned a study to identify Army requirements.

So, to the extent that you could do that accurately, I think, minimizes the risk that would be associated with the lease arrangement.

Now, in the case of a remote site, where it is just not a good motel site and normally you would not go there for commercial reasons, in order to induce a developer to go there, you would have to guarantee some sort of an occupancy rate because he has no recourse of picking up business from commercial or the tourist in order to make up the difference.

But, again, I think the risk is an acceptable one provided that the service identifies their needs clearly. They have years of records that they can draw on.

I think the amount of rooms that should be made available could be negotiated. It is not something that would have to stay in place for 20 years, but I think it is essential, both for the protection of the Government and the protection of the private developer in a remote area, that you work out some sort of a lease arrangement.

But, these are all offsite. This does not have to go onsite. Now, in exceptional cases, you might want to go on base with a facility. The Fort Ord example, I think, is a good one. The land is terribly expensive outside, and there may be exceptional cases where in order to control that, you have got to go onto the base. But, then, the private sector developer is in a more difficult situation because if the military clients fall off, he has no recourse to go out to the more conventional markets, commercial and tourist markets, to make up the difference. So, it might be advisable to have an occupancy guarantee or a plan.

But, again, I think these are things that are doable and the risks associated with them, in my opinion, if there is good planning ahead of these agreements, are minimal. I think they can be acceptable.

I think that pretty well concludes our presentation. We did carry out a brief comparison of rates and services, Hospitality Inn versus the, in this case, I took the, Navy Lodge, and it is not a complete survey, obviously.

But I find that there are really two groups of services. One is the standard air conditioning and laundry, vending and telephone, that sort of thing. Both the Hospitality Inn and the Navy Lodge provide that.

But there is another series of services offered by the Hospitality Inns that deal with this liveability factor; private patios, and our large activities rooms for the families, an outdoor garden area with barbecues and private patios, things of that sort. Those were not provided by the military facilities, by and large.

The rates are comparable. So, I think, in summary, we feel that the Hospitality Inn concept is very well suited to meeting the temporary lodging facilities requirements, and they can be constructed quickly at low cost and operated economically. I think the prices are comparable to those on base accomodations, but we do recommend that some thought be given to these leasing arrangements in order to allow the private sector to go in and meet the needs of the military without incurring undue risks on his part.

So, thank you for the opportunity.

Mr. **Hutto**. Thank you very much, Mr. Sohn.

Our chairman, Mr. Daniel, had to leave a little earlier. He has another meeting.

Mr. Martin, do you have questions?

Mr. **Martin**. Yes. Thank you, Mr. Chairman.

I think both gentlemen made outstanding presentations, and it was fascinating, to say the least.

Let me ask you, at your Pensacola facility, is there a guarantee as to occupancy?

Mr. **Sohn**. No; that facility has been operating from day one at close to 100 percent occupancy. So, although we have promoted it to the military, we have experienced where we have had to turn away military personnel because there simply is no room. There is no agreement with the Navy.

Mr. LIECHTY. The big problem there was shown last weekend; we turned away 40 military couples that did not make reservations, although we specified they should. We advertised in some of the Navy papers. We ended up turning them away because there is no agreement with the Navy. It is unlikely under the present situation, the way things are done in the military, that there will be an agreement unless changes are made.

So, this really affects the military people, thinking they are going to spend their time there—and have already had a brochure in their hand that we have sent to them—and then getting in town and not being able to stay there.

So, that is one of the really strong recommendations, that we have some kind of agreement. We do it in the private sector with not-for-profit hospitals on two different sides. They love to have an inexpensive place for the people to come. At some of those sites, we keep so many rooms until like 8 at night, and if a guy comes in late and never made reservations, he can come there for that same price.

So, these are some things that make it real easy for the military families, if we had some kind of agreement. It works both ways.

Mr. MARTIN. Well, we do have some kind of guaranteed programs, as you know, so it would not be without precedent.

Let me ask you this. I understand that your operation manages over $3 billion in assets.

Mr. SOHN. The Angeles Financial Management Corp., yes. We have about $1 billion in real estate and a sizable inhouse capability to manage our properties, but we do not farm it out.

Mr. MARTIN. This $19.95 price, is that for a couple or would that be a couple with three children, up to the age of 17? Would that be the same $19.95 price?

Mr. LIECHTY. No, sir, $19.95 includes a single adult. That is on a 30 day stay. The most a military family of four or five can pay for a single night would be $29. The least they can pay is $19. The children are always free. The married adult would stay for 30 days would be $21.95, and a weekly is $25.95, then a daily, just for one night, is $29.95.

Mr. MARTIN. So, you do have accommodations for single, male or female?

Mr. LIECHTY. They are all the same size rooms, identical rooms, with different price structures. The longer they stay, the cheaper it becomes.

Mr. MARTIN. Well, all right. Your standard mix is anywhere from $19 to $29, depending on how many children or that type of thing. Again, I do not want any information that is personal.

But, this is not a loss leader with you folks, is it? Are you making money on that project by itself?

Mr. SOHN. Yes; it is a very good commercial site. It is on Mobile Highway 90. There is a lot of tourist traffic and we have actively promoted the commercial clients. So, it is a very good commercial——

Mr. MARTIN. $29 for a husband and wife and their three kids, to stay in town for an extended period of time, is very good. Also being a Member of Congress here in Washington, I understand what you are referring to by a cell, in which people live. I went through that period once for about 20 days in a motel with my children, and Alcatraz could not have been any worse than that dump was.

Is there any maximum period of time you can allow people to stay? For example, could they stay 6 months?

Mr. LIECHTY. I checked before we came. I live within a couple of blocks of the site, and I was very active during the construction and now in the operations. We are doing a lot of checking on it.

There are seven couples that have been there since we opened, which was the last of April; they are still there. We have anywhere from 15 to 30 children getting on a school bus every day. This is because of the outside activities and the community centers, our concept is more like a home. It is a hallway leading to the living room more than a motel. That is what makes it unique. You can sleep in your living area and your bedroom, but you leave there and go down to the common area or outside for other activities.

So, that is why they do stay there longer and we encourage longer stays.

Mr. MARTIN. Let me ask you one other question. You rent to civilians as well as military. You have families as well as singles. You do not have any direct connection with the base in the sense of being able to exert any influence over the conduct of the people within the facilities. This means you have a pretty standard cross section of middle class America.

Do you have any problems with evicting, somebody who is raising cain with your property? At $29 per unit for extended periods of time, I do not suggest you can afford to absorb an awful lot of destruction to your property. Has there been a time you have ever called upon anybody at the base to ask somebody to get their family in the right direction?

Mr. LIECHTY. We appreciate the military business. We really do have a good working relationship with the people on the base, but we do appreciate the military because they appreciate us, and they tell us they appreciate it and also we hire people from the base to work in our facility.

So, we have never, to my knowledge, in 2½ years, had a problem with a military family. If we do, the base commander or their immediate supervisor can be notified and that problem is taken care of real quickly. But we just have not had the problem, the normal problems of a motel. But we have onsite security and onsite management, which has really alleviated the problem.

Mr. MARTIN. I thank you very much, Mr. Chairman, and I appreciate the presentation. This probably is not going to happen, but if the House of Representatives should ever, by mistake or design, allow us to know what we are going to be doing 24 hours ahead of time, I would like to make arrangements to see this facility. Quite frankly, it almost seems too good to be true. But you are happy and they are happy, and the price is right, and I would like to see it. If lightening strikes and we know what we are doing 24 hours ahead of time, I would like to come down and see it.

Mr. HUTTO. Mr. Martin, not only would we like to have you down there, but we will make a reservation for you.

Mr. **Martin**. And, I hope you will clear that with the leadership.

Mr. **Hutto**. Thank you, Mr. Martin.

Mr. **Sohn**. Mr. Chairman, could I make one more comment?

Mr. **Hutto**. Yes, sir. Mr. Sohn.

Mr. **Sohn**. I think another policy issue that might be addressed is the policy of some of the services to contract out for motel space. If they are full on the base, then they select motels ahead of time and have contracts with them, and they refer people to them, usually first to the least expensive and so on.

We think that these motels must meet some eligibility standards. We would strongly urge that in setting up a criteria for picking these contractors that consideration be given not only to whether the room is of adequate size, has a bathroom and that sort of thing, but some of these liveability issues be addressed.

In other words, do they have a commons area, is there a playground for the children, and things of that sort, because we are firmly convinced that to resolve employee morale problems, you have got to get away from the cell-type of a room, and broaden into more of a homelike atmosphere. I think that the contract motels should be selected partially on that basis because, otherwise, somebody can always put up a minimal facility and underprice by a couple of dollars. But to build in the liveability, then we can compete successfully, and we think that policy should be addressed.

Mr. **Hutto**. Thank you very much.

I believe our staff members have some questions.

Mr. Holton.

Mr. **Holton**. When we were down at Tyndall, we stopped and looked at one of the Air Force TLF's. They are building about 450 square feet per room, which is larger than your rooms, but they are building theirs to sleep up to five people.

What is your opinion of the Air Force room size, and are you targeting the same market they are? It seems you are not.

Mr. **Liechty**. No, we are not. In some ways, we overlap. We have to come to a place where we have got to make money to survive, and it is definitely economics when it comes to your planning and design.

For instance, we went to 325 square feet for one reason, because by putting the same queen size bed into the wall instead of on the ground, the children, although it is 125 less square feet, have got twice the space to play and during the day. You can take 450 square feet and put two beds in it, but you only have about 6 foot around the beds and that is it.

So, we try to incorporate a lot of things like that, so that we can still compete. We had to design our rooms to compete with the military lodgings. We know that, in fact, we are lower than the new ones coming on board, like the lodge at NAS Jacksonsville, who charge $25 a night, but there are no discounts for weekly or monthly stays.

We can beat that by $5 per night plus serve breakfast. So, to be competitive, we had to do a lot of engineering and really put a lot of maintenance-free and state of the art type of systems in. The bases I have seen do not have the state of the art systems nor the state of the art noise barriers nor state of the art in management or operations. For instance, we are operating our total units for 42 percent of what the national average is in other motels. That includes the maid and maintenance, but that does not happen by accident. You have got to really sharpen your pencil.

Mr. Hutto. Mr. Waters.

Mr. Waters. Thank you, Mr. Chairman.

I just have one question. It goes back to the remote sites. One of you gentlemen mentioned in discussing remote sites that you would need a guaranteed occupancy rate.

Could you just elaborate on that? Do you expect the installation to provide you with the funds if you do not hit a certain rate during a certain week or month? Is that what you intend when you talk about a guaranteed occupancy rate or are you just talking about referrals from the base?

Mr. Sohn. Well, if you went to a remote site and did not have a lot of standard commercial traffic, then you would probably want to have a lease agreement with the military base to pay for *x* number of rooms whether those rooms were used or not.

Now, if it is a good motel site, you do not have to worry about it. If they are not occupied by military people, you can sell them, most of the time, to civilian traffic. But, if you had a remote site and there is no traffic going by your door, I think that you would have to charge for the rooms that are not used. There would be a lease involved.

Mr. Liechty. Mr. Waters, it is very simple, We are depending on the military to give us their statistics at this point, a lot of them are made available, a lot of them are not. So, when you depend on them to make the numbers available to you how many they can use per day, then you are depending on them also to fill a certain percentage of them.

But if they say they need 300 units, I would suggest they build 100 and maybe a guarantee 80 of that 100. We can then always build more, but that way you will not be hanging out on the limb from the military standpoint nor will we be because we are depending on your numbers before we build.

Mr. Waters. Would the size of the facilities be your decision.

Mr. Sohn. We would base that on the needs.

Mr. Waters. If we have a requirement for 300 and you——

Mr. Liechty. We base that on the Department's information.

Mr. Sohn. We would base that upon the military estimate of the need for those kinds of facilities. General Joyce, as I mentioned, commissioned a study to identify his needs and then they plan to build to accommodate 75 percent of those needs, I think that any time you go to a remote sites, you would have to go through that same process. Now, really, determine how many rooms you need, and we will provide space for 75 percent of those. Then you work out a leasing arrangement on that basis. As Neil mentioned, and I think is a good idea, once the commons facilities are in, it is rather easy to add additional rooms. So, you can kind of hedge your bets in two or three different ways there.

But the ability of the military to predict its needs and negotiate leases on that basis is a key factor.

Mr. Waters. Thank you, Mr. Chairman.

Mr. Hutto. Mr. Cofer.

Mr. Cofer. No questions Mr. Chairman.

Mr. HUTTO. Well, again, we want to thank you, Mr. Liechty and Mr. Sohn, for being with us, and making a very fine presentation.

We thank all of you for being with us today. These hearings are recessed until 10 a.m. on October 17, 1985, at which time we will hear witnesses from the Air Force, Navy, and Marine Corps.

Thank you.

[Whereupon, at 1:06 p.m., the panel recessed, to reconvene at 10 a.m., Thursday, October 17, 1985.]

FISCAL YEAR 1986 NONAPPROPRIATED FUND CONSTRUCTION PROGRAM

House of Representatives, Committee on Armed Services, Morale, Welfare and Recreation Panel of the Readiness Subcommittee,
Washington, DC, Thursday, October 17, 1985.

The panel met, pursuant to call, at 2 p.m., in room 2212, Rayburn House Office Building, Hon. Dan Daniel (chairman of the subcommittee) presiding.

Mr. **Daniel**. The panel will be in order.

We would like to welcome all of you to the second day of our hearings on nonappropriated fund construction.

Today, we will hear testimony from several Air Force witnesses, beginning with James Boatright, the Deputy Assistant Secretary of the Air Force, Installations, Environment and Safety, accompanied by Brig. Gen. George Ellis, Deputy Director, Engineering and Services; Maj. Gen. Melvin G. Alkire, Commander of the Air Force Commissary Service; and Col. Richard Fink, Director, Morale, Welfare and Recreation, Headquarters Military Personnel Center.

Gentlemen, we are very pleased to have you here. You may proceed as you desire.

STATEMENT OF JAMES F. BOATRIGHT, DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE, INSTALLATIONS, ENVIRONMENT AND SAFETY, ACCOMPANIED BY BRIG. GEN. GEORGE E. ELLIS, DEPUTY DIRECTOR, ENGINEERING AND SERVICES, HQ USAF; MAJ. GEN. MELVIN G. ALKIRE, COMMANDER, AIR FORCE COMMISSARY SERVICE; AND COL. RICHARD FINK, DIRECTOR, MORALE, WELFARE AND RECREATION, HEADQUARTERS MILITARY PERSONNEL CENTER

Mr. **Boatright**. Mr. Chairman and members of the panel, I am Jim Boatright. It is my pleasure to represent the Air Force here today to discuss the nonappropriated fund program. This program is vitally important to the Air Force mission and the quality of life of Air Force people.

With me this morning are Major General Alkire, Brigadier General Ellis, from our Engineering and Services, and Colonel Fink.

My formal statement covers in detail many areas of concern to both the Air Force and the panel. With your consent, I will submit it for the record.

At this time, I would like to provide you an overview of four broad areas.

Mr. **Daniel**. Without objection.

Mr. BOATRIGHT. The four broad areas that I would like to discuss are: nonappropriated versus appropriated funding; morale, welfare and recreation program; Air Force commissary program; and Army and Air Force exchange program.

Additionally, I will address golf course procedures which have been of concern to the panel.

FUNDING OF PROJECTS

An issue that generates a great amount of discussion among both our staffs, as well as among other House and Senate committees, is the avenue of funding for certain types of projects. It is the Air Force's position that all facilities needed to support new or expanded missions should be authorized and funded from congressional appropriations, and that the cost of facilities supporting the morale, welfare and recreation of the service members and their families should not have to be borne by them when these conditions are met.

For fiscal year 1986, the House and Senate authorization committees approved 10 projects totaling approximately $11 million, in accordance with existing criteria, as either in support of new missions or which otherwise met the conditions for appropriated fund support. However, the House Appropriations Committee denied these projects. We were directed to use nonappropriated funds. We are continually being placed in a catch-22 situation and request your support in resolving this issue.

Another issue is the support given to morale, welfare and recreation [MWR] facilities from operations and maintenance [O&M] appropriations. O&M funds may be used to provide routine maintenance and repair of a facility. It is established Department of Defense policy to provide appropriated fund support for O&M on all Government-owned real property facilities, including MWR facilities.

Work accomplished by using these appropriated funds is essential to preserve and maintain Government-owned facilities to a condition that precludes premature replacement costs. In order to maintain our MWR programs and the benefits derived from them, this support must continue.

The Air Force MWR program is conducted throughout the Air Force as an integral part of its mission, and plays an essential role in our ability to maintain quality personnel and thereby a combat-ready posture. The program is an essential tool for maintaining a high state of morale and readiness for military personnel, and it is an important factor in attracting and retaining the kind of highly skilled people we need in the All Volunteer Force.

I am convinced that MWR plays a vital role in the Air Force. I believe mission accomplishment and force readiness are tied to the well-being of Air Force personnel. There are few, if any, areas in the military which touch the lives of our people and create this essential sense of well-being the way our MWR program does.

Mr. Chairman, facilities play a key role in providing a balanced MWR program. The proper allocation of resources to construct new facilities continues to be one of our top concerns. Our approach is simple: our people programs drive our facility requirements. And, emphasis is given to facilities for overseas personnel.

To further refine our system, this year we have established a facilities panel which scrubs each project against practical and subjective considerations. We are very comfortable with our system because we firmly believe that our highest priority projects are funded first.

Construction costs for MWR facilities are shared by appropriated and nonappropriated funds. During the period 1978 through 1985, the Air Force spent or obligated $261.9 million for MWR construction. Of this total, $114.4 million was from appropriated funds, and $147.5 million from nonappropriated funds.

However, there remains much to be done. Including the MWR facility requirements contained in the fiscal year 1986 NAF report currently being reviewed by your staff, we have an identified MWR construction backlog of approximately $300 million.

COMMISSARIES

Commissaries are an essential and highly valued component of the military's compensation system. Commissaries were once housed in old and inefficient facilities which were scattered in inaccessible areas of the base. The inefficiency of these converted facilities resulted in a tremendous waste of manpower and utilities. With the inception of AFCOMS in 1976, an aggressive and responsive construction program was initiated.

AFCOMS' primary mission is to support the Air Force's institutional feeding programs and to ensure food stocks are available to feed our troops during war. Commissaries are a direct link to military readiness because they reinforce the sense of belonging, espirit de corps, and cohesion so important to effective military units. The support provided our families has a direct influence on our success or failure in retaining our service members.

The Air Force has recognized the need for an ambitious construction program—funded with customers' surcharge moneys—to improve commissary capabilities. We deliver commissary services in the most efficient, professional manner to provide access to this element of compensation wherever possible.

AFCOMS is using the contract authority provisions provided by the Congress to finance the current commissary construction program. AFCOMS is the first of the commissary systems to use this businesslike concept. Using this method, projected cash flow drives the availability of obligation authority which, in turn, determines the size of the construction program for a given fiscal year. AFCOMS must pay all bills as they are rendered or incur an antideficiency violation.

Priorities for new construction are determined independently by the AFCOMS board of directors. Prior to any decisions by the board, construction requirements are thoroughly validated by Headquarters AFCOMS, and are reviewed and approved by Headquarters U.S. Air Force and the Office of the Secretary of the Air Force.

Congressional oversight of proposed construction provides the capstone to a rigorous system of evaluations to ensure that construction needs are fully justified.

The establishment of a commissary at new active duty installations with relatively small military populations—for example, our strategic training range [STR] sites—has been a topic of recent discussions.

As I mentioned earlier, commissaries are an essential component of the military's compensation and community life. But they are especially critical for Air Force members serving overseas and at isolated sites in the CONUS. Normally, there are few adequate commercial facilities near these sites.

Personnel at these locations need our help. They have few alternatives. They are cut off from the rest of the military community and depend on us for an acceptable quality of life. They are doing their job under adverse conditions, and doing it well. We feel these facilities are essential to satisfy the basic needs of our personnel.

Let me now turn to the commissaries in Greece and Spain, which also fall into this same general situation. Facility improvements at these installations have repeatedly been deferred due to the uncertainty of base rights agreements.

At present, the commissary facility at Iraklion is grossly unsafe, equipment has deteriorated to an unmanageable condition, and the facility layout is inadequate and inefficient. We have repeatedly postponed correction of deficiencies at the Iraklion commissary for nearly 20 years.

General Alkire has stated that this commissary is the worst in the Air Force. The continuation of interim fixes for health and safety equipment items is a disservice to our military members assigned to Iraklion. Other locations in Greece and Spain have similar problems.

The Air Force believes proceeding with construction at these installations is a prudent investment. Therefore, I would request that you reconsider your recent deferral of the Iraklion project.

ARMY AND AIR FORCE EXCHANGE PROGRAM

AAFES is a most unique Government organization. It is a military command, a business, and a service organization. The mission of AAFES has not significantly changed since the inception of exchanges in 1895.

AAFES is charged with providing approximately 7 million customers worldwide with merchandise and services of necessity and convenience which are not furnished from appropriated funds. AAFES clearly provides a form of non-pay compensation. It provides merchandise, service, and convenience at a savings which in effect increases the buying power of the military member's monthly pay.

An important direct benefit to customers, in addition to low prices, is that the exchange construction program is funded through AAFES earnings. In the early sixties, most AAFES facilities were old, small and generally inadequate. No appropriated fund assistance was available, so AAFES requested permission to use earnings for construction on a test basis.

AAFES was authorized to fund construction on a test basis. The test program proved successful, and since 1969 the use of exchange funds for new construction has become an accepted practice.

Funds expended for new construction and facility improvements have increased considerably in the past years—in new construction, from $22.5 million in fiscal year 1979, to approximately $60 million in fiscal year 1985. The facility improvement program expenditures for fiscal year 1979 was approximately $32 million and for fiscal year 1985 is approximately $92 million.

GOLF COURSE PROGRAMS

Fees for golf programs have been the subject of recent changes in Air Force policy. Fees are established by the local commander. This year, the Air Force established a minimum fee schedule to be used in determining green fees. The green fees at most of our bases are at a level that military families can afford, yet provide for a sizable part of the operating costs of other recreation activities.

Most green fees being charged provide the Air Force member with savings over municipal and public golf courses. These savings are comparable to those realized by Air Force members in commissaries and exchanges.

A policy for golf course maintenance has also been established. It requires a ratio of 70 percent APF/30 percent NAF be maintained for daily maintenance of golf course grounds. It also establishes that all construction, renovation, or major repairs of the golf course grounds be funded with nonappropriated funds. These actions ensure that golf patrons are paying a fair share of golf course operating costs and that the courses continue to generate a profit which can be used to assist other recreation activities.

Additionally, the Air Force has published new policy relating to golf course tee-time priority. This new guidance will give priority to active duty military to ensure that our active members get full use of this recreational resource.

Mr. Chairman, in conclusion, I want to reemphasize the importance the Air Force places on our morale, welfare and recreation programs, commissaries, and exchanges. Commanders at all levels are convinced of the strong positive effects that these programs and their facilities have on mission accomplishment, readiness, morale, retention, and family life.

The relationship of these programs to the combat readiness of the Air Force cannot be downplayed. Since the morale and well-being of our people are the cornerstones of our force readiness and workplace productivity, I believe that appropriated funds must continue to bear a fair share of the program.

Mr. Chairman, thank you for the opportunity to appear before this panel today.

We will be happy to answer any of your questions.

PREPARED STATEMENT OF JAMES F. BOATRIGHT

INTRODUCTION

Mr. Chairman and Members of the Panel, I'm Mr. James F. Boatright, Deputy Assistant Secretary of the Air Force for Installations, Environment and Safety. It is indeed a pleasure for me to represent the Secretary of the Air Force this afternoon to discuss the nonappropriated fund (NAF) construction program - a program which is so vitally important to the Air Force mission and the quality of life of our people.

OVERVIEW

Although NAF construction is funded by monies generated by the service member, we are charged with the same responsibilities, oversight, and scrutiny of this construction program as we are for those on which we spend appropriated dollars. It is our fervent commitment to ensure these funds are spent wisely, efficiently, and effectively. It is our charter to ensure service members receive the best their money can buy and that their needs are met through the construction of appropriate and excellent facilities.

The Air Force's NAF construction program is developed, managed and funded by three major instrumentalities; the Air Force Welfare Board (AFWB), the Air Force Commissary Service (AFCOMS), and the Army and Air Force Exchange Service (AAFES). The Air Force Director of Engineering and Services through the Secretary of the Air Force is responsible for the consolidation, coordination and oversight of this construction program and its transmittal for your review.

I will discuss each of these instrumentalities as they relate to the NAF construction program and respond to questions your Panel has asked concerning specific construction projects. I will also respond to questions asked concerning the operational and managerial aspects of these instrumentalities in the development of their NAF construction programs. I will review our construction philosophy, program development, assignment of priorities, selection of projects, and how we fund them from either nonappropriated or appropriated funds.

NONAPPROPRIATED VERSUS APPROPRIATED FUNDING ISSUES

I first wish to talk to you about a major concern of ours and an issue that generates a great deal of discussion not only between your staff and ours, but also among other Committees of the House and Senate. The issue is the on-going debate about funding certain types of construction projects with either NAF or appropriated funds. It is the Air Force's firm position, which is in complete agreement with this Panel, that all facilities needed to support new or expanded missions should be authorized and funded from appropriations of the Congress and that the cost of facilities supporting the morale, welfare and recreation of the service members and their families should not have to be borne by them when these conditions are met.

This year we were able to secure Office of the Secretary of Defense (OSD) approval and House and Senate authorization for ten projects totaling approximately $11 million in accordance with existing criteria as either in support of new missions or which otherwise met the conditions for appropriated fund support. However, the House Appropriations Committee deleted these projects and directed us to use NAF. We continue to be placed in a "Catch 22" situation and urgently request your support in resolving this issue. The Air Force member should not have to bear costs for facilities being constructed to enhance national security and for the defense of our Nation.

Another issue is the support given to Morale, Welfare, and Recreation (MWR) facilities from operations and maintenance (O&M) funds appropriations. Appropriated O&M funds may be used to provide routine maintenance and repair of a facility (interior/exterior painting, repair of ceilings, floors, doors, windows, roof and mechanical/electrical/plumbing systems, repair of real property installed equipment, etc.). It is established Department of Defense (DOD) policy to provide appropriated fund support for this type of work for all government owned real property facilities (including MWR facilities) on a military installation. Work accomplished by using these appropriated funds is essential to preserve and/or restore a government-owned facility to a condition that precludes premature replacement expenditures.

In order to maintain our MWR programs and the benefits derived from them, this support must continue for these government-owned facilities that have been provided to us by the AFWB, AFCOMS, and AAFES.

NAF PROJECTS FOR THE AIR FORCE RESERVES (AFRES)

In this year's program we have two projects at AFRES locations (one AFWB funded and one AAFES funded). We request your support of these projects, so we may continue our efforts to enhance our Total Force Program. I will discuss each of these projects later when I talk about the programs from which they are funded.

AIR FORCE WELFARE BOARD (AFWB) NAF CONSTRUCTION PROGRAM

The Air Force MWR Program is conducted throughout the Air Force as an integral part of its mission and plays an essential role in our ability to maintain a cadre of quality personnel and a combat-ready posture. It strengthens institutional values in our personnel through their direct involvement and participation in the military community. The program is an essential commander's tool for maintaining a high state of morale and readiness for military personnel and it is an important factor in attracting and retaining the kind of highly skilled people we need in the all-volunteer force. We are convinced today, more than ever, that MWR plays a vital role in the Air Force. We believe mission accomplishment and force readiness are inextricably tied to the well-being of Air Force personnel. There are few, if any, areas in the military which touch the lives of our people and create this essential sense of well-being the way our MWR program does.

As you know, Mr. Chairman, facilities play a key role in providing a balanced MWR program. The proper allocation of resources to construct new facilities continues to be one of our top concerns. Our approach is simple--our people programs drive our facility requirements. We have developed a prioritization system which ensures our most needed facilities are constructed first. In its application, emphasis is given to facilities for our overseas personnel. To further refine our system, this year we established a facilities panel which scrubs each project against practical and subjective considerations. We are very comfortable with our system because we firmly believe that our highest priority projects are, in fact, funded first.

MWR FUNDING - NAF AND APPROPRIATED

Department of Defense (DOD) funding policy recognizes that the government and the patron must share the costs of the MWR program. During the last few years, approximately two NAF dollars for each appropriated fund (APF) dollar have been spent in support of this program. Consistent with DOD policy, APF support to MWR activities is used for personnel costs for executive control and command supervision, facility maintenance, communications, supplies, equipment, construction, and utilities for some activities depending upon type and location. Most of this support goes for activities that provide our personnel those conveniences they would have in a normal civilian community. These activities include libraries, ball fields, family oriented facilities, and child development centers. Revenue generating activities such as golf courses, bowling centers, and open messes also receive APF support. Most of this support is for command control and executive supervision, maintenance of government-owned facilities, and support to overseas and isolated statewide activities.

With regard to our construction program, construction costs of MWR facilities are shared by APFs and NAFs. During the period 1978 through 1985, we spent or obligated $261.9 million for MWR construction. Of this total, $114.4 million was from APFs and $147.5 million from NAFs. The bulk of APF expenditures was for gymnasiums ($59.3 million), child development centers ($25.0 million), and composite recreation facilities ($12.4 million). The NAF program included open messes ($47.8 million), bowling centers ($20.5 million), racquetball courts ($15.3 million), child development centers ($9.4 million), youth centers ($6.4 million), golf facilities ($5.3 million), and skill development centers ($4.3 million).

But there remains much to be done. Including the MWR facility requirements contained in the FY 1986 NAF Report to Congress currently being reviewed by your staff, we have an identified MWR construction backlog of approximately $300 million.

MWR NAF FACILITY ACQUISITION PROCESS

MWR NAF facility programming, design and construction are incorporated into a comprehensive process involving base level, Major Command (MAJCOM), and Air Force actions. This is time-phased to place all major construction projects in annual cycles. It prescribes major milestones, specific actions that must be taken, and who is responsible for completing those actions. Meeting the milestones ensures that each needed facility is placed under contract in the fiscal year programmed.

The facility acquisition process begins with each base determining its requirements. Construction requirement determinations are based upon periodic surveys, patron comments, program changes, facility condition or deficiencies, and use. We have developed a number of MWR surveys which serve to provide decision-makers necessary information regarding patron needs and participation. The primary surveys are the Program Demand Assessment which measures the need for a program prior to its establishment; the MWR Leisure Time Survey which identifies program importance, potential problem areas, and patron satisfaction; and the MWR Quantification Study which measures the impact of MWR on morale, retention, family life, discipline, and other areas. Air Force bases are also required to develop an MWR master program plan which covers a five-year planning period. The plan is updated annually. This plan covers such areas as personnel needs and interests, on-base and off-base resources, those resources available at other military installations, and facility information. It is designed to assist in determining program and facility deficiencies.

Requirements are then submitted to the MAJCOM headquarters where they are thoroughly reviewed. The project may, if beyond the command's capabilities or authorities, be forwarded to HQ USAF for review, approval and funding. For successful projects, this process is followed by at least two more reviews--one by the Secretary of the Air Force or his designee and one by your Panel.

MWR NAF PRIORITY SYSTEM

The Air Force NAF prioritization system includes four basic scoring elements--facility condition, operational priority, demographics, and major command priority. Points are assigned for each of these elements. The facility condition element takes into consideration the size deficiency and the structural condition of the existing facility. The operational priority takes into consideration such factors as importance of the program to be supported by the proposed facility and extent of customer satisfaction as determined by annual surveys of military personnel. The demographic element addresses location (overseas, CONUS) and active duty population served. This element is weighted in favor of overseas locations, particularly those with short tour assignments. The last element, MAJCOM priority, allows the command to identify their most pressing needs.

Our prioritization system was further refined for the FY 1987 construction program with the establishment of an MWR NAF facilities panel composed of key staff members of MWR and Engineering and Services. The panel assessed the need for each project proposed for central funding. Their assessment included an independent review of population to be served, current and projected patron utilization, program data, availability of similar facilities in the local community, and size of the proposed facility. MAJCOM representatives were required to brief the panel on the details of their projects. The panel then developed its own priority listing of projects proposed for funding to supplement those developed from the numerically scored system. Both lists were used in the review and approval of the FY 1987 program. The approved projects will be included in the next annual NAF report to this Panel.

MWR NAF CONSTRUCTION FUNDING

Turning now to the funding of our MWR projects. Appropriated funds are provided through the annual Military Construction Program (MCP). The remainder of our construction needs must be funded with nonappropriated funds.

NAF funding for MWR construction programs may be provided from base, MAJCOM and Air Force-level resources. MAJCOMs can authorize spending up to $500,000 and delegate part or all of this authority to base level. Air Force-level approval is needed to spend more than $500,000. Projects beyond base funding capability or authority are referred to the MAJCOM or Air Force-level for approval and, in certain cases, actual funding. MAJCOMs obtain funds from four basic sources--allocations from Air Force-level which are derived primarily from Army and Air Force Exchange Service (AAFES) profits, loans from Air Force-level, assessments on their own activities, and interest income. MAJCOMs may also combine their funds with base funds to meet specific construction needs. In FY 1986, bases will fund 35 recreation projects for $10.8 million, 32 open mess projects for $16.8 million, seven Class VI projects for $2.9 million, and one temporary lodging facility (TLF) project for $.3 million.

Air Force-level Central NAFs provide the following types of funding: welfare fund grants, membership fund grants, loans, and TLF assesments. Each has its own fund source and is designed to meet specific needs.

The main source of Air Force welfare funding for youth centers, arts and crafts and auto skill development centers, athletic fields, etc., is AAFES dividends. We use approximately 75 percent of the AAFES dividends for MWR programs. The remaining 25 percent is used for MWR construction. Our five-year forecasts are currently projecting an annual welfare fund construction program of $12-14 million during the period of FY 1986-1990. The FY 1986 centrally funded construction program amounts to 13 projects at $12.6 million. The programs for FY 1987 and the following years may be changed if actual needs or fund availability projections change.

The funding for open mess and other membership facilities comes from the Air Force Central Membership Association Fund. We have developed a NAF funding program to construct open messes for the Air Force beginning in FY 1987. However, I want to emphasize that it is vital that we continue to receive Congressional support for open messes at new bases and at bases with new or expanded missions. The funding for the NAF program comes from an assessment on Class VI sales and open mess interest income from bases in the United States, and a percentage of slot machine income from our overseas bases.

We are currently in a multi-year program to construct new TLFs. The program will build in excess of 1,000 rooms at 38 locations at a total cost of $53 million. The funds will come from an assessment that has been established on each TLF room used.

In order to reduce the backlog of MWR construction needs and at the same time get the most out of our limited NAFs, the Air Force provides NAF financial support in the form of loans, grants, and combinations thereof. The policy on the type of support provided depends on the type of facility, the source of the NAFs, and the capability of the proposed facility to generate revenues.

Loans may be approved for any type of project. Interest-bearing loans come from money held on deposit in our Centralized Investment Program (CIP). The money in this program comes from temporary deposits of base and MAJCOM nonappropriated fund instrumentalities (NAFIs) - primarily open messes and billeting funds. The money is loaned to MAJCOMs at the average rate of return being earned on the investment portfolio.

Most recreation facilities in the CONUS that are not eligible for APF support are funded from welfare fund grants. Our grant program is used to construct those military community facilities that do not generate sufficient income to repay a loan. Major income-producing recreation facilities, such as bowling centers, golf courses, and class VI stores are funded with interest-bearing loans. These facilities not only generate sufficient revenues to repay loans, they normally generate enough NAF revenue to help support other welfare fund activities such as those for physical fitness, recreation centers, and libraries. Reductions in APF support for bowling and golf activities would have a corresponding adverse impact on the financial support they provide these other activities.

AFRES MULTIPURPOSE RECREATION FACILITIES

In 1982, a detailed review was made of the AFRES need for MWR programs and supporting facilities. This study included the mission of each installation, the population served, current levels of MWR program, facility use, and funding support. This review reaffirmed that AFRES installations contribute to the mission of the active force and MWR programs and facilities need to be available. However, it was recognized that they should be provided these programs and facilities at a reduced level from those found on active force installations.

Bases having inadequate facilities are now being programmed for a single multipurpose recreation building. Locations are the airports at General Billy Mitchell Field WI, Minneapolis-St. Paul IAP MN and Chicago O'Hare IAP IL. The program calls for construction of one such facility per fiscal year and Minneapolis-St. Paul IAP was determined to have the greater need and was included in the FY 1986 NAF Report to Congress. This facility will provide exercise and recreational space for 690 active duty military and 354 Air Reserve Technicians (ARTS) personnel working on base full time as well as 309 active duty military in the immediate area who are assigned to this base for logistical and administrative support. Further information was provided to your staff as to the total make-up of base personnel and the specifics as to what this project will provide. Our plan is to fund the other two projects in FY 1987 and FY 1988. I would like to emphasize that there are only three projects in the AFRES long-range plan and these are based on the active duty and ARTS population at the bases, not on assigned reservists.

GOLF COURSE FEES AND O&M MAINTENANCE SUPPORT

Fees for golf programs have been the subject of recent changes in Air Force policy. Fees are established by the local commander. This year, we established a minimum fee schedule to be used in determining green fees on golf courses. The fees at most of our bases are at a level that military families can afford, yet provide for sizeable part of the operating costs of other recreation activities. Most fees being charged provide the Air Force member with savings over municipal and public golf courses. These savings are comparable to those realized by Air Force members in commissaries and exchanges.

A policy for golf course maintenance has also been established. It requires that a ratio of 70 percent APF/30 percent NAF be maintained for daily maintenance of golf course grounds to include mowing of grass, irrigation, seeding, etc. It also establishes that all construction, renovation, or major repairs of the golf course grounds be funded with NAFs. These actions ensure that golf patrons are paying a fair share of golf course operating costs and that the courses continue to generate a profit which can be used to assist other recreation activities.

MARINAS

Marinas play a significant role in our outdoor recreation program. They provide the opportunity to participate in many marine activities by offering boats for checkout; water sports such as swimming, skiing and sailing; instructional courses for boating and water safety; and other family-oriented activities. Marinas can be operated as military welfare fund activities, as membership associations, or as private organizations. Under the welfare fund activity approach, DOD MWR funding policy authorizes certain types of APF support, e.g., facility maintenance and repair, supplies, equipment, and utilities.. Membership associations are authorized less APF support, and private organizations receive no APF or NAF support. All five bases you identified for discussion (Tyndall AFB FL, Eglin AFB FL, Patrick AFB FL, Homestead AFB FL, and Keesler AFB MS) have marinas organized as welfare fund activities. Tyndall AFB, Eglin AFB, and Patrick AFB each have an additional marina operating as a membership association. Details on each of these activities were previously provided to your staff.

USING NAFs FOR APPROPRIATED FUNDING RESPONSIBILITIES

In the absence of Congressional funding, we have had no alternative but to use NAFs to construct the softball field at Clark AB PI, the auto skill development centers at RAF Lakenheath UK and Sembach AB GE, and the arts and crafts skills development center at Rhein-Main AB GE.

We did not program APF support for the Clark softball field because it did not qualify for APF support under the current DOD funding policy.

With regard to the skill development centers at RAF Lakenheath UK, Sembach AB GE, and Rhein-Main AB GE, the DOD funding policy designates APFs as the fund source for these overseas projects.

In accordance with that policy, we included in the FY 1984 MCP, a project to replace the arts and crafts skill development center at Andersen AFB, Guam, which was destroyed by a typhoon. This project was disapproved by the Congress with instructions from the Senate and House Armed Services Committees to "Use NAFs for NAF-type facilities". We submitted seven skill development centers, all overseas, in our FY 1985 MCP. Based on the guidance provided on the Andersen AFB project, these projects were withdrawn at DOD level. Based on this experience and the need for these facilities, we have included the Lakenheath, Sembach, Rhein-Main, and Andersen centers in the FY 1986 NAF program. These facilities are vitally important to our people who are stationed in our overseas areas and should have been funded with APFs.

CARSWELL AFB TX BOWLING CENTER

We support this project. The existing facility was constructed in 1962 and contains many functional and space deficiencies. This project will correct these and provide the additional lanes needed to meet identified needs. Funding will be with a NAF loan. Details on the project were previously provided to your staff.

ARMY AND AIR FORCE EXCHANGE SERVICE (AAFES)

NAF CONSTRUCTION PROGRAM

AAFES is a most unique Government organization -- it is a military command, a business, and a service organization. The mission of AAFES is twofold and has not significantly changed since the inception of exchanges in 1895.

First, AAFES is charged with providing approximately seven million customers worldwide with merchandise and services of necessity and convenience which are not furnished from appropriated funds. The customers are a diverse lot with different wants and needs and varying incomes. However, since the vast majority of active duty military are enlisted personnel, it is toward these folks and their families that AAFES stock assortments is primarily orientated. AAFES clearly provides a form of non-pay compensation. It provides merchandise, service, and convenience at a savings which in effect increases the buying power of the military member's monthly pay. The AAFES goal is to save exchange customers an average of 20 percent.

Second, AAFES is required to generate earnings for use in supporting MRW programs for Army and Air Force personnel. AAFES contributions to the MWR programs have increased significantly since 1979. They have increased more than the inflation rate, which means AAFES is contributing more purchasing power each year. For each dollar of profit, AAFES distributes 50 cents to the Army and Air Force Welfare Boards in the form of dividends (Air Force receives approximately 21.5 cents):

DIVIDENDS PAID TO

ARMY AND AIR FORCE MORALE, WELFARE, AND RECREATION FUNDS

($In Millions)

Fiscal Year	Army	Air Force
1979	48.8	37.5
1980	50.6	36.9
1981	56.4	38.8
1982	56.1	40.4
1983	62.2	46.8
1984	66.7	48.6
1985	*	*

*Dividends declared - 112.0

AAFES OPERATIONS AND BOARD OF DIRECTORS

AAFES has come along way since post exchanges were established in 1895. AAFES is a joint military command currently commanded by an Army Major General

AAFES operations extend throughout the world employing approximately 70,000 personnel. Only 103 personnel are military - the rest are AAFES civilian employees (not civil service) who are paid out of AAFES earnings (not tax dollars). AAFES is the single largest employer of military family members -- they constitute over 1/3 of the total work force.

The AAFES operation is diverse both in scope and function. Almost 18,000 facilities are operated worldwide to bring goods and services to those they support. Overseas, AAFES operates some unique activities which include meat and ice cream processing plants, bakeries, and even the school-lunch program for the military dependent schools. AAFES ice cream and bakery products, in addition to being sold in AAFES facilities, are also provided for troop issue and commissary sales. School lunches are provided on a break-even basis. AAFES operates 430 paid theaters and provides free 16mm movies to many remote locations.

AAFES NAF CONSTRUCTION

An important direct benefit to customers, in addition to low prices, is the exchange construction program which is funded by customer purchases; i.e., AAFES earnings. In the early sixties, most AAFES facilities were old, too small and generally inadequate. No appropriated fund assistance was in sight, so AAFES requested permission to use earnings for construction of new facilities. The Vice Chiefs of Staff of the Army and the Air Force authorized AAFES to fund construction on a test basis. The test program proved successful, and since 1969, the use of exchange funds for new construction has become an accepted practice. Funds expended for new construction and facility improvements have increased considerably in the past years:

CAPITAL EXPENDITURES PROGRAM FUNDING

($In Millions)

Fiscal Year	New Construction	Facility Improvements
1979	22.5	31.8
1980	20.0	49.8
1981	22.0	47.4
1982	33.6	56.8
1983	35.6	76.1
1984	43.0	92.4
1985*	39.5	92.4

*Projected

The AAFES FY 1986 Capital Expenditure Program (CEP) including the realignment of its distribution system will be funded internally from AAFES assets. Construction of its Burger King restaurants will be funded internally or borrowed from the Burger King corporation depending on its cash position at the time funds are needed.

AFRES SHOPPING CENTER FACILITY

At Twin Cities AFS MN (Minneapolis-St. Paul IAP), an AFRES installation, we plan to construct a new AAFES shopping center. This 28,816 square foot facility will replace a small, 9,773 square foot, deteriorated wood structure which was built as a temporary facility in 1942. This new facility will provide space for retail sales, warehousing, administrative and personal service activities and a food activity. With this project we will be upgrading a service which we already provide at this location. Further information about this project and the people it will serve was provided to your staff.

APPROPRIATED FUND SUPPORT OF AAFES

Congress, through the House Armed Services Committee, exercises oversight of exchanges. Since 1949, the Congress has determined who may patronize exchanges, what merchandise and services are authorized for sale in CONUS exchanges, and the cost price limits for merchandise. AAFES operates almost entirely on revenues generated from the sale of goods and services. AAFES, and ultimately its customers, must bear the cost for civilian employees salaries, inventory investment and management, most distribution costs, most utilities and capital investment for equipment and vehicles - in short, all the normal costs of doing business. Congressionally appropriated fund support to AAFES is minimal. AAFES receives modest transportation support for goods shipped overseas, funding for 103 military salaries, AUTOVON communications support, and payment of utilities on overseas bases.

In summary, AAFES is dedicated to serving its 7 million customers wherever they serve.

AIR FORCE COMMISSARY SERVICE (AFCOMS) NAF CONSTRUCTION PROGRAM

Commissaries are an integral, essential and highly valued component of the military's compensation system. Historically, commissaries were housed in old, inefficient, crowded, dismal facilities which were scattered in inaccessible areas of the air base. Warehouse space was borrowed whenever and wherever it was available. The functionality of these converted facilities was extremely poor causing a tremendous waste of manpower and utilities. With the inception of AFCOMS in 1976, an aggressive and responsive construction program was initiated.

AFCOMS MISSION

AFCOMS' primary mission is to support the Air Force's institutional feeding programs and to ensure food stocks are available to feed our troops during war. Commissaries are a direct link to military readiness because they reinforce the sense of belonging, esprit de corps, and cohesion so important to effective military units. The support we provide our families has a direct influence on our success or failure in retaining highly trained and qualified service members.

The Air Force has recognized the need for an ambitious construction program - funded with customers' surcharge monies - to improve commissary capabilities. We deliver commissary services in the most efficient, professional manner to provide access to this element of compensation to active duty military members wherever possible.

AFCOMS CONSTRUCTION AND FUNDING

AFCOMS is using the contract authority provisions provided by the Congress under Public Law 97-321 (the FY 1982 Military Construction Authorization Act, which amended 10 USC 2685) to finance our current commissary construction program. AFCOMS is the first of the commissary systems to use this business like concept. Using this method, projected cash flow (Trust Fund Balance) drives the availability of obligation authority which in turn determines the size of the construction program for a given fiscal year. AFCOMS must pay all bills as they are rendered or incur an anti-deficiency violation.

The FY 1984 ($123 million) and FY 1985 ($101 million) AFCOMS construction programs used $22 million and $60 million, respectively, in contract authority to award construction projects.

Prior year construction contracts will require extensive payments in the next few fiscal years. This projected demand on cash reserves, plus a less than forecasted surcharge revenue, causes the FY 1986 program to be smaller than previous years. The FY 1986 program ($40 million) is the maximum additional obligation load our surcharge cash flow can accommodate. It is important to point out that the FY 1986 program represents a low water mark caused by the accelerated construction program of the two previous years.

CONSTRUCTION PROGRAM DEVELOPMENT

Priorities for new construction are determined independently by the AFCOMS Board of Directors. Prior to any decisions by the Board, construction requirements are thoroughly validated by headquarters AFCOMS. First, AFCOMS reviews Air Force mission changes and target operational dates to determine whether existing facilities are adequate to meet mission requirements. Second, AFCOMS considers the overall condition and age of existing facilities to determine ability to meet operational requirements. Third, AFCOMS evaluates the location of the store to determine if they provide for safe, convenient, and efficient merchandise delivery and customer shopping. Fourth, AFCOMS assesses the capability of the facility to handle existing and projected sales volume. Finally, AFCOMS considers opportunities where new construction or alteration of existing facilities can increase operational productivity and energy efficiency.

Congressional oversight of proposed construction by the House Armed Services Committee provides the capstone to a rigorous system of evaluations to ensure that construction needs are fully justified. AFCOMS plans new stores, major modifications, and equipment replacement projects using the following parameters:

Commissaries built with modern materials and methods have a life expectancy of 35 to 40 years. Modifications to existing facilities will be required each 10-12 years to accommodate modern merchandising methods. It is of paramount importance that we afford our people a level of service that mirrors what is available in the commercial sector. In addition, projects will be required each 5-7 years to replace equipment. Using these guidelines, we project replacement of all World War II and Korean War vintage structures by FY 2000.

Based on the present approved surcharge contract authority and the anticipated contract authority, we estimate the following backlog of projects through FY 2000:

FY	Est No of Proj	Est Cost	Appr Surcharge Const Authority ($Millions)	Anticipated Surcharge Const Authority ($Millions)
86	22	40.0	40.0	-
87	20	75.0	75.0	-
88	16	62.9		62.9
89	13	60.6		60.6
90	26	59.4		59.4
91	50	58.6		58.6
92	28	50.0		50.0
93	18	43.7		43.7
94	15	84.1		84.1
95	31	88.1		88.1
96	43	97.3		97.3
97	34	101.7		101.7
98	24	106.3		106.3
99	16	111.1		111.1
2000	31	116.1		116.1

[illegible], construction support requirements will continue to replace stores as they become obsolete; i.e., beyond 35 to 40 years old. Additionally, any new mission requirements not funded with appropriated funds must be borne by surcharge monies. Other normal major and minor modifications to maintain an effective operational posture, as well as equipment replacement projects, will be required on a cyclical basis.

COMMISSARIES AT NEW INSTALLATIONS

The establishment of a commissary at new active duty installations with relatively small military populations; e.g., SAC's Strategic Training Range (STR)/Strategic Training Range Center (STRC) sites, has been a topic of recent discussions between our staffs.

As I stated before, commissaries are an integral and essential component of the military's compensation and community life. The services provided by Air Force quality of life programs are essential to the morale and well being of our service personnel. These services are needed by all our personnel, but it is especially critical for Air Force members serving overseas and at small, isolated sites in the CONUS. Normally, there are few adequate commercial facilities near these sites and prices are high. The compensation effect to the military family is estimated to be in excess of 25 percent in grocery shopping costs at each of these locations. We already support small populations of active duty personnel at: Holbrook AB AZ; Port Austin AFS MI; Makah AFS WA; Calumet AFS MI; Gila Bend Aux Fld

AF- Indian Springs AFS NV; and Ft Fisher AFS NC. Not only are most STRC sites isolated, but they are subject to weather extremes which results in difficult and dangerous travel.

The current initiatives to support the STR/STRC sites fall into this category:

LOCATION	NEAREST DOD COMMISSARY - MILES
Belle Fourche SD	Ellsworth AFB - 65 Miles
Conrad MT	Malmstrom AFB - 67 Miles
Dickinson SD	Minot AFB - 267 Miles
Forsyth MT	Malmstrom AFB - 250 Miles
Havre MT	Malmstrom AFB - 106 Miles
La Junta CO	Fort Carson - 85 Miles
Powell WY	Malmstrom AFB - 305 Miles
Wilder ID	Mt Home AFB - 80 Miles

The Congress has imposed a limit on CONUS commissaries of 247. OSD is controlling the establishment/disestablishment of stores to remain within that number and has approved commissaries for the above locations.

Personnel at these locations need our help. They have few alternatives, they are cut off from the rest of the military community, and depend on us for an acceptable quality of life. They are doing their job under adverse conditions and doing it well. Can we do any less?

COMMISSARIES IN GREECE AND SPAIN

The commissaries in Greece and Spain also fall into this same general situation. Facility improvements at these installations have repeatedly been deferred due to the uncertainty of base rights agreements.

Now, the commissary facility at Iraklion, is grossly unsafe, equipment has deteriorated to an unmanageable condition, and the facility layout is inadequate and inefficient. We have repeatedly postponed correction of deficiencies at the Iraklion commissary for nearly 20 years. The AFCOMS Commander, Major General Alkire has stated that this commissary is the worst in the Air Force. That the continuing of interim "fixes" on only health and safety equipment items is a disservice to our military members assigned to Iraklion. Other locations in Greece and Spain have similar problems. We believe proceeding with construction at these installations is a prudent investment of the service member's monies. We request reconsideration of your recent deferral of the Iraklion project.

CONSOLIDATION OF SURCHARGE FUNDS

The Air Force discerns no benefit from surcharge fund consolidation and perceives major disadvantages. We are opposed to the concept. There are two distinct disadvantages to the Air Force. First, we would lose control to whatever corporate body would be empowered with oversight. Second, we would lose momentum in our efforts to eliminate personnel requirements stemming from operating antiquated commissaries.

The Air Force is vitally concerned with the quality-of-life extended to its military personnel and their families. We need these people to make the Air Force a career. Investments in quality of life programs are a cost effective means of retaining trained personnel. We have surveys that show that commissaries are a highly valued portion of the compensation package and are a psychosocial element woven into the fabric of military life. The commissary benefit is ranked second only to medical care as a form of non-pay compensation. The loss or lack of a commissary would have a negative impact of 3-5 percent on the income of military families. The commissary entitlement and the manner in which it is delivered is a major factor in retention of trained personnel. No corporate body outside the Air Force would share the same degree of concern for Air Force manpower problems either retention or quality of life. The Air Force maintains an aggressive, well planned, and well executed program of commissary facility improvement and construction to satisfy the needs of our service men and women.

REREPORTING PRIOR YEAR PROJECTS

Currently, those projects not awarded in the fiscal year in which they are reported to the House Armed Services Committee, must be rereported to the Committee. In this year's NAF Construction Report to Congress we rereported ten projects. Four of these projects (commissaries) were awarded before the end of the fiscal year. We rereported the ten projects as a precautionary measure to preclude out-of-cycle requests to the Committee.

The Air Force requests the Committee to allow a two-year-cycle for NAF construction project contract awards which would be in concert with the Military Construction Program (MCP) obligation authority for appropriated funds. This should eliminate this administrative rereporting exercise.

CONCLUSION

Mr. Chairman, I have touched on those matters we were asked to address and I hope I have provided information which will be helpful to you, this Panel, and its staff. I want to reemphasize the importance we, in the Air Force, place on our morale, welfare and recreation programs, commissaries and exchanges. Commanders at all levels are convinced of the strong positive effects that these programs and their facilities have on mission accomplishment, readiness, morale, retention, and family life.

Air Force studies on the effects of MWR programs on its people provide empirical evidence that these programs are not just nice-to-have benefits; rather they are a major factor in the Air Force member's quality of life. As the morale and physical well-being of our people are the cornerstones of our force readiness and work place productivity, it is absolutely essential that appropriated funds continue to bear a fair share of the program which directly supports them.

Mr. Chairman, thank you for the opportunity to appear before this Panel today.

I will be happy to answer any of your questions.

Mr. DANIEL. Thank you.

Mr. Waters, would you state for the record the reason why this project that Mr. Boatright referred to, in Greece, has not been authorized?

Mr. WATERS. We are talking about the Iraklion commissary. The reason the panel has deferred that project is because of the political uncertainty in that country and the fact that the Military Construction Subcommittee is not authorizing any major construction projects until the question of our future presence is resolved.

Mr. DANIEL. Any questions by any member of the panel with regard to this?

If not——

Mr. MARTIN. Mr. Chairman, just one question.

Mr. DANIEL [continuing]. Yes, Mr. Martin.

Mr. MARTIN. Again, this is a learning process.

What is the mission of the Air Force commissary to ensure food stocks are available to feed our troops during war? How much of that mission does your budget entail, and where does the money come from in preparation for distribution and supply in case of war? Is that a whole separate entity under your command? How does that work?

Mr. BOATRIGHT. It is included as a part of the Air Force budget. I will ask General Alkire to address that question, since he is in charge of commissaries.

General ALKIRE. Sir, we are responsible for stocking the foods for Air Force war readiness materials around the world. We also count, if you will, in Europe, what is in the warehouse of our retail stores against our wartime requirement.

But over and above that, we have in stocks in the United States and at the European locations war readiness food in terms of what we call MRE's, meals ready to eat, which is a dehydrated food package that is a replacement of the old C-rations in World War II. We have a number of those in storage in Europe, in the United States, in the Indian Ocean, supporting contingencies in that area, and in the Pacific.

Mr. MARTIN. All expenditures relating to that function of the commissaries come out of appropriated funds?

General ALKIRE. Yes, sir; and they are in the Air Force budget.

Mr. MARTIN. Thank you, Mr. Chairman.

Mr. DANIEL. Mr. Boatright, let me assure you that we are going to take another look at this matter which you brought to our attention.

Did you say there was also one in Spain?

Mr. BOATRIGHT. Yes, sir.

Mr. DANIEL. You mentioned that there was also one in Spain.

Mr. BOATRIGHT. Yes, sir; and another one in Greece, in Athens.

Mr. DANIEL. We will take another look at them to see what, if anything, can be done.

Mr. BOATRIGHT. Yes, sir.

Mr. NICHOLS. Mr. Chairman?

Mr. DANIEL. Yes, Mr. Nichols.

Mr. NICHOLS. I would like to ask one question.

Mr. DANIEL. Go right ahead.

Mr. **Nichols**. This has nothing to do with military construction, Mr. Chairman.

Mr. **Daniel**. The gentleman is recognized.

Mr. **Nichols**. I just wonder if the Secretary or others at the table are aware of the language that has been included in the Senate Appropriations Committee's markup addressing the sale of cigarettes?

Mr. **Boatright**. I am not aware of the language.

Is anybody here?

General **Alkire**. Sir, I am generally aware of them, but I haven't seen the words.

Mr. **Nichols**. I have the language here. And my interpretation is that if this language were to be adopted, none of the funds appropriated by this act "shall be available in connection with the operation of commissary stores that do not sell cigarettes at a price equivalent to the lowest average prevailing shelf price at civilian outlets in the areas where commissary stores are located."

That is generally the gist of it. And since I believe somewhere around 10 percent of the total sales may be from cigarettes, I just wondered if you all have put the pencil to what that might cost us.

General **Alkire**. We have taken an initial look at the impact of this legislation. We are convinced that the proposed legislation will dramatically reduce our earned surcharge. And as you know, we depend on that surcharge to build stores for new missions such as Comiso, Italy, and Greenham Commons in England, and around the world. It will have a very bad impact on our surcharge account.

Mr. **Nichols**. I just suggest that this is a very mischievous, and I think you had better take a good look at it and give us some ammunition that we can take to our counterparts when they go to conference on it.

General **Alkire**. We will do so.

Mr. **Nichols**. That is all I have, Mr. Chairman.

Mr. **Daniel**. Thank you, Mr. Nichols.

The Chair would like to ask whether or not you have made those views known to the Senate. Has anyone from DOD made these views known?

Mr. **Boatright**. I am not aware that they have been. I am just not familiar with the subject, Mr. Chairman.

Mr. **Daniel**. I think maybe someone should.

Mr. **Boatright**. We will.

Mr. **Daniel**. We have contacted some of the Members on the other side, and we think maybe you could provide us with the information which we need. But it is something we need to look at immediately.

Mr. **Boatright**. We will bring it to the attention of the Office of the Secretary of Defense and ask them to assist us, and we will also bring the information to this panel.

Mr. **Daniel**. The House Military Construction Appropriations Committee recently released its 1986 bill. A number of projects were deferred, and the department was told to use nonappropriated funds for them.

It might prove helpful to the panel if you can explain the types of projects that are now being recommended for NAF funding. Explain what is involved in the following projects; for example, Clark Air Force Base, the Philippines, Audio Visual Center.

Mr. **Boatright**. I have General Ellis here to address that question.

General **Ellis**. This is really only a graphics facility that provides slides, viewgraphs, presentation materials for the base population.

Mr. **Daniel**. Who would get the benefit of these visual aids? Would they be the service personnel or their families?

General **Ellis**. No. It is part of the act of doing business.

Mr. **Daniel**. Part of the act of doing business?

General **Ellis**. I would use them for any briefing that I wanted to present, or my staff or anybody else on the base, and it is not a typical nonappropriated fund function. In fact, I would say that dependents and families would not be permitted to use that service.

Mr. **Daniel**. Let the Chair state that we have a policy decision here that is going to affect nonappropriated funds, to a large extent. This subcommittee, this panel, needs more information than we have now about what specifically is being done with these funds and who is getting the benefit of them, so we can carry out our responsibility in seeing that nonappropriated funds are not used for improper purposes.

I would encourage you, Mr. Secretary, to get that information to us as rapidly as you can, because it is apparent that somebody else is running with the ball.

Mr. **Boatright**. Yes, sir. We have that detailed information here. We will be pleased to provide it to your staff.

Mr. **Daniel**. Let's go on down the list, then. What about the Belle Fourche, SD, recreation facilities?

General **Ellis**. That is two softball fields, multiple tennis courts, basketball courts, lighting, and supports 74 permanent party personnel assigned to Belle Fourche.

Mr. **Daniel**. How many?

General **Ellis**. Seventy-four.

Mr. **Daniel**. And who else would be using those facilities?

General **Ellis**. Those 74 people would be using it 99 percent of the time. There may be occasions when they would invite a visiting team to play, et cetera, but that is a service-oriented facility.

Mr. **Daniel**. And what about the athletic field at the Air Force Academy?

General **Ellis**. That is just upgrading the existing football field there. It includes a press box and a water sprinkling system as part of the academy grounds.

Mr. **Daniel**. What that says is that you take funds that were generated by the troops stationed around the world to upgrade a facility that they will never see or use.

Isn't that what this amounts to?

Mr. **Boatright**. Yes, sir. And we strongly disagree with the suggestion that we fund these not with appropriated funds but with nonappropriated funds.

Mr. **Daniel**. I know that you are really in a catch-22 situation, as you said a little while ago, and it is going to be up to this committee to see if we can't bring about some resolution of this problem.

Mr. Whitehurst.

Mr. **Whitehurst**. Just several questions, Mr. Chairman.

Mr. Secretary, and perhaps also General Ellis, the panel has heard many times that excessive Government regulations cause high project costs and lengthy completion times. So I guess the question is, Has the Air Force looked at what specific Government laws and regulations force up the cost of construction, either with nonappropriated funds or military construction?

And, in a similar vein, have you attempted to determine what regulations contribute to the lengthy times that it takes to get projects built?

Mr. **Boatright**. Yes. We have looked at that in conjunction with the other military departments and the Office of the Secretary of Defense. I don't have available with me today the details of our review, but we definitely know that there are certain regulations and statutes which do drive the price up for our construction.

Mr. **Whitehurst**. Are the regulations superfluous, Mr. Secretary? Do we need them, with the costs they bear?

Mr. **Boatright**. We believe that in some cases we do not need them, but that is certainly not a position that is shared by all.

Mr. **Whitehurst**. I am sure. But perhaps if there were a waiver provision in some of these cases, it would be helpful.

Mr. **Boatright**. We believe that it would probably be appropriate to waive certain requirements based on the value of the projects. We believe that we do a lot of construction of relatively small- to medium-sized projects, that some of the burdens of the statutes and regulations create an undue cost burden on those projects.

Some of our major construction projects, when you get in the category above $5 million or $6 million, probably they are able to carry that burden much more easily.

Mr. **Whitehurst**. Is Davis Bacon a factor?

Mr. **Boatright**. Yes, sir. We believe that Davis Bacon definitely drives the cost of construction up.

Mr. **Whitehurst**. You bet your sweet life it does.

Just one or two others. General Alkire, the Army takes considerably longer than the Air Force to build its commissaries. Can you summarize the significant differences between your two systems? In other words, are there any initiatives that you have that they might borrow?

That is called a cream puff question, General.

General **Alkire**. I will take the cream puff.

We are designing projects in about 6 months. And, once under contract, our goal is 12 months for construction. And the reality is, by the time we get through the process, we are really looking at 15 to 16 months. I have a conviction that we can bring that down to under a year, because I watch supermarkets downtown go up in under a year.

We have a test going on right now at one of our bases. I just arbitrarily said, OK, let's give the contractor 10 months. We are starting this at the right time of the year. I am told that the first thing the contractor said, once he got the contract and everything settled down, was, well, I don't know about this 10 months, but I am going to take 16.

So, part of it is to educate the contractors that we meant what we said and use very diligent and careful construction management. I think that is part of our success.

We award our design contracts through our base contracting offices, using, I think, essentially the same procedures as the Army Corps of Engineers. We use commercial design standards rather than Government guide specifications. And once the contract is awarded, we tend to use a commercial firm to do the construction management inspection for us. That is what we have done, and it has worked reasonably well for us.

Mr. WHITEHURST. That leads me to another question. That is, this panel has long espoused reducing the size and cost of commissary stores by utilizing commercial distribution systems, increasing operating hours and eliminating unneeded administrative space.

Do you have any initiatives underway to reduce the size and cost of these stores?

General ALKIRE. No, sir. We size the stores based on our historical data and what we know it takes to service a given population.

I guess some of you are aware of the frequent delivery systems we have been testing where we use a commercial distributor to supply our stores with some products on a daily basis rather than on a weekly or biweekly basis. We have done that at three locations so far—Eglin, Andrews and Langley—and I have to say that the Eglin test is the only one we are prepared to run the flag up and say it was successful. And it is those procedures we used at Eglin that we are exporting elsewhere.

I am not prepared to say today—and I don't think we should ever reduce our warehouse space because of frequent delivery. First off, we still have to store 1 or 2 days of every product that is on frequent delivery. If we don't, when we run out of a product in the middle of the day, we have an empty shelf, and that doesn't take care of our military families. We need the capability to restock during the day.

Second, manufacturers pick distributors. We don't pick distributors. We buy from the manufacturer. We pay the manufacturer and the manufacturer selects the distributor. So we don't require, and never will require, that a company use a specific distributor. We are convinced that is really beyond our authority, so we need the flexibility.

If a distributor or manufacturer is not performing, we need the flexibility to back out of it, as a lever, if you will. We have troubles, say, on the northern tier bases that are a long way away from the supply lines, where distributors sometimes just don't pay attention to our needs, and occasionally we may have to educate them on how they should perform. So, we need the flexibility to buy a truckload, to get the message across that they are not doing the job.

We still need the space to receive what we receive on frequent delivery. We still need the space to receive the product and to prepare it for the night stocking. So, I am comfortable that our criteria is correct and that at this time we shouldn't change it.

Mr. WHITEHURST. Just one last question. I direct this to the Secretary and possibly General Ellis.

The Air Force is requesting $1.4 million for an arts and crafts center at Andersen Air Force Base in Guam. When the panel asked for projected usage data, we were told that it was difficult to find.

So, the question is, What programs will be housed at the facility? What is the expected usage? In short, without defining programs, how did the Air Force size this particular facility?

Colonel **Fink**. Sir, may I address that?

The difficulty in responding to the specifics of the question are related to the fact that we don't have a full arts and crafts program at Guam now. We, in fact, never did have a centralized building. And part of what we were using in the past was damaged during a typhoon quite a few years ago.

As a result of that, we are in a sense a makeshift operation there, and what was described here was size on the basis of the base population there at Andersen, and we are talking about a little over 4,000 active duty military. And since we have some U.S. citizens, Government employees there, and they don't have any other facilities available, we count them, and that is in the range of 658. And we count a portion of our dependents. So you are talking about our using population of about 7,400 people.

If you are familiar with the geography out there, the base is quite a ways from what little town there is. It is a big island, but it is an island. So we feel a comprehensive program is something that would be very beneficial to our people.

We are talking about an arts and crafts area, including sales, exhibit display areas, pottery and ceramics, photography lab, a fine arts area, which includes jewelry lapidary, the stain glass type of art, metal work, things like that, miscellaneous craft and industrial arts.

When you look at the floor type plans we have built in the past, they include open areas where you can conduct classes. That is one key to the Air Force approach to arts and crafts. We emphasize programs. If you want to keep people beneficially occupied, you can't just open the door and say here is a building. You have got to provide them some way of getting instruction and support.

We feel it is the kind of program that, with the large number of people we have on Guam, is needed.

Mr. **Whitehurst**. Thank you very much.

Thank you, Mr. Chairman.

Mr. **Daniel**. Mr. Nichols.

Mr. **Nichols**. Yes, Mr. Chairman.

Secretary Boatright, you mentioned in your discussion building facilities at reserve bases. To my knowledge, this is a new endeavor. I don't know that we have ever done this before. If we have, please correct me.

My notes indicate that you want to put a $600,000 recreation facility in the St. Paul-Minneapolis area on a reserve base. You have about 500 active duty people there, I am told. It seems to me this is establishing a brand new precedent in the military.

I am told the facility would have a steam room, a basketball court, maybe an indoor tennis court. My knowledge about the reserves is that they go on duty to train and not to take steam baths, play tennis, handball or whatever they are playing there.

I think that is a pretty steep price, if you are talking about 500 active duty people. I wish you would elaborate on this.

Mr. **Boatright**. Yes, sir.

Mr. **Nichols**. Is this a precedent? Are we going to build these for National Guard units?

Mr. **Boatright**. This is a new program for the Air Force. We don't envision an extensive program in this area, but we do believe that it is important to meet the needs of our reservists and our active duty people that are assigned in the area where we have reserve stations.

The Air Force is very strong on the total force concept where we have integrated the Air National Guard and the Air Force Reserve into our total force, where they carry out active, real, live missions for the Air Force on a day-to-day basis.

Mr. **Nichols**. Remind me, tell me when they are going to use these facilities. They are supposed to be there to train. When do they have privileges to use commissaries, PX's, bowling alleys and class VI stores?

Mr. **Boatright**. The facilities will not be used by the reservists during their training time. They will be used by the active duty people that are assigned in the area. They will be used by the full-time reservists that we have that are really on a Civil Service basis, on a full-time basis. But they are there at the base every day, 8 hours a day.

Mr. **Nichols**. How many of those do you have?

Mr. **Boatright**. We have the numbers on that. I will ask Colonel Fink to give you exact numbers.

Mr. **Nichols**. You have 500 active duty people here. How many of these people are the type the Secretary is talking about?

Colonel **Fink**. Mr. Nichols, the Minneapolis-St. Paul strength we have of Air Force active duty and other service active duty that are actually assigned to that Reserve base on the airport, there are 690 people.

Mr. **Nichols**. 690 people?

Colonel **Fink**. Yes, sir.

In addition, there are another 154 of the Air Reserve technicians, that Mr. Boatright referred to, who are the full-time people. They are there every week.

When we sized this facility, we did not size it based on any of the reservists there.

Mr. **Nichols**. Are these people authorized commissary and exchange privileges?

Colonel **Fink**. No, sir.

Mr. **Nichols**. So now they are going to use the steam bath.

Colonel **Fink**. That would be in a recreation facility, sir. They are U.S. Civil Service people and are authorized to use, when they are Government employees, recreation facilities, if there is space available based on the military. The military have first priority.

Mr. **Nichols**. I have got some reservations about that one, Mr. Secretary.

Colonel **Fink**. May I help you out? When we size these, we talk with the headquarters Reserve people at some length.

To address your question of are we setting a precedent, there are only three Reserve installations where we are considering doing this. The other two are in the same character in the sense that they have a significant number of active duty people who are assigned. And the way we prefer to look at it is that we are proposing to build the facilities for the active duty people who are assigned to the reserve bases.

All three of these bases have an active flying mission. All of them have C-130 aircraft assigned. And two of the bases are also strategic air command and air refueling bases. They have tankers on alert there, so we have active duty people and active flying missions that we are addressing ourselves to.

Mr. **Boatright**. One other item I think we ought to clarify for the record is that the reservists are entitled to use the commissary when they are in active duty pay status for 72 hours or more and they are entitled to one visit to the exchange for every 4 hours of active duty served.

Mr. **Nichols**. I am familiar with that. What is the size of your backlog for active duty bases?

Mr. **Boatright**. I think that our total backlog, as I stated briefly in the statement, is about $300 million.

Mr. **Nichols**. How much does the 5 percent surcharge bring in to the Air Force from the commissaries?

General **Alkire**. Five percent brings in about $107 million a year.

Mr. **Nichols**. 170?

General **Alkire**. 107.

Mr. **Nichols**. 107.

General **Alkire**. Yes, sir.

Mr. **Nichols**. How much of that is spent on military construction?

General **Alkire**. Sir, in fiscal year 1985——

Mr. **Nichols**. Just ball park.

General **Alkire** [continuing]. Well, with the help of the Congress in 1982, we are on a cash-flow basis in our surcharge account, which means we essentially are running construction on cash flow and in paying operating bills with surcharge.

In fiscal year 1985, surcharge brought in $110 million, or the program was 110 and the construction was $102 million, but you have to recognize that some of that was using cash in the bank, if you will.

In 1986, the numbers are $116 as projected for surcharge income, and only $40 million for construction.

Mr. **Nichols**. Let me bring up a related issue. What I am trying to get at is the military is going to have to live pretty hard in the immediate years ahead, and I think the public is going to expect us to be very prudent with our money. I think they are going to be looking for toilet seats and coffee pots, wrenches and so forth.

Now, you have got some plans here to build commissaries at 12 small bombing range tracking sites, in some small towns out West.

I certainly support the commissary system, but I am told that these sites only have from 50 to 70 personnel, and that the commissaries are going to cost about $400,000 each. That would equate to about $8,000 a person, if you are talking about 50 people.

Is that good business?

Mr. **Boatright**. We believe it is. We are in the business, in the commissary business, of providing this service to our people, and we believe that our people that are assigned to some of the more remote areas, where they don't have access to a commissary at a reasonable distance, deserve that right, and therefore we believe that it is the kind of investment we should make.

We believe that the surcharge money from our overall commissary program is sufficient to take care of this. If you are looking at it just on a dollars and cents business sense arrangement, some of them certainly are marginal.

Some of them will probably prove not to be a wise business venture, but we believe in the overall Air Force requirement, because of what it contributes to the morale and the welfare and the readiness of our force. We think it is the right thing to do.

I think, generally speaking, it is about 75 people where we try to draw the line. If you get below 75, it becomes very, very questionable from a cost standpoint.

Mr. **Nichols**. Congress has put a cap of 247 on the total stores that we can have. The Navy has got some pretty big plans for locations where you have a lot of active duty people involved.

How does this committee go about justifying 12 more commissaries for our blue suiters? We love blue suiters, believe me.

Mr. **Boatright**. The 12 commissaries will be within the 247 limit. The Office of Secretary of Defense manages the number.

We have to submit our requirements to OSD. They are reviewed against the requirements of the other military departments and then are approved, and then we report those requirements to this panel for a final review.

So we have done this in full coordination with the Office of Secretary of Defense and the other military departments, and we do not believe that any of our requirements are jeopardizing any of the other military department requirements.

Mr. **Nichols**. Mr. Chairman, I have, if you will indulge me, one more question.

Mr. **Daniel**. The gentleman is recognized.

Mr. **Nichols**. It relates to some bases that have or are expected to have increases in military active duty populations. I am referring to Eielson Air Force Base in Alaska.

I had the privilege of being up there during the month of August, and looked at both Eielson and Fort Wainwright. Now a good portion of the new light infantry division will be stationed at Fort Wainwright. Eielson is right up the road from there, some 20 miles or thereabouts.

I visited commissaries and exchanges at both bases, and I was told that they anticipate a lot of the new troops coming in would be living in the community of North Pole, which is about halfway between the two facilities. This leads me to say that the Eielson commissary needs some improvements and changes.

I believe you have those changes scheduled for 1990 or thereabouts.

Mr. **Boatright**. Yes, sir, we do.

Mr. **Nichols**. I am suggesting that these troops are going to be coming in somewhere around the 1989 timeframe.

I just wonder, Mr. Chairman, if you are convinced that there is a sufficient need there, would it be in order to try to move that up a year or so earlier?

Mr. **Boatright**. Yes, sir Major General Alkire, in a recent visit up there, came to the same conclusion, and we have moved it foward in our program. Of course our program depends on the cash flow in the surcharge account, but we anticipate now that we will be able to do that before the 1990 timeframe.

Mr. **Nichols**. Thank you, Mr. Chairman.

Mr. **Daniel**. Mr. Martin.

Mr. **Martin**. Let me just ask you one question and I will follow up with a couple of other brief ones.

The Air Force has something in the order of a $200 million backlog in club construction. As you noted in your testimony, you have started to assess a 3 percent surcharge on class VI sales, and a percentage of slot machine revenues to accelerate construction.

Could you briefly explain the rationale for those assessments and how they work? I think you may have touched on it when you talked about your cash flow, and your overall strategy to reduce the club construction backlog over the next 5 years.

Do you have an accelerated plan in mind?

Mr. **Boatright**. Yes, sir. I will let Colonel Fink give you the details on this, but the most critical backlog we have in nonappropriated fund-type facilities I think is in our open messes, NCO and the officer open mess.

We have a lot of very old facilities that are inefficient from an operations standpoint. They are also rather dangerous from a safety standpoint.

We believe we have to get at that backlog, and we are taking some steps to finance that backlog through these assessments that you have mentioned, and I will let Colonel Fink outline to you the detail of those assessments and what we expect to get from them.

Colonel **Fink**. Mr. Martin, the Air Force's recognition of the fact that we had to get at the task of rebuilding our open mess system was undertaken just about 2 years ago.

We tried to find a new source of money that did not directly tap the open messes themselves, because they can support a certain amount of their construction, but not a significant backlog like this, and if you look into the details of the actual background you will find many of these are overseas in relatively small clubs.

We are putting people there because of national policy decisions. We don't have enough people there to support a construction effort.

What we did was try to spread the burden around, and we are taking part of the money from our slot machine income. Slot machines are in the overseas area in foreign countries. That will be tapping that to the tune of 3 percent of the harvest of these machines.

The rest of it remains in the command, some of which can be spent for open messes. We have also placed an assessment against sales in the class VI system, the package store system, because we don't have slot machines in CONUS, and CONUS people are also going to benefit, so we were looking for a way to make sure that there was a way of sharing that, also.

Also, we are taking a small amount of money from the interest earnings of our clubs that are wealthy enough to have money on deposit in a central investment program.

Mr. **Martin**. Is that a 5-year backlog, that $200 million?

Colonel **Fink**. No, sir, much more than that.

Mr. **Boatright**. I would say it is much, much more than that.

We believe this will allow us to get at the most critical ones now. For many years, we have tried to keep these messes together, using maintenance funds to do repair work. As I said earlier, many of those have gone beyond that stage now, and they simply may have to be replaced, and the only way we can get sufficient money is through this effort, but it will take us a number of years.

Mr. **Martin**. Before this panel, and in the press, some talk has been bandied about some highly touted first-class, luxury, second to none hotels. The talk was that with these hotels that some are talking about, some branch of the service with more vigor than others, that they were going to be putting the clubs into these hotels as part and parcel of the hotels.

Is that your plan as well with some of your club projects?

Mr. **Boatright**. I am not aware of any major effort on the part of the Air Force to combine our messes with any kind of a hotel system.

We believe our open messes on an installation play an important part of the social environment of those installations. They are not necessarily there just for the people who travel, who are on temporary duty there, but they are really for the permanent party that is assigned to that installation, and so we are putting much more emphasis on the quality of the facility there to serve the population of the base, and not so much interest in the travel of the community within the Air Force.

Mr. **Martin**. I couldn't agree with you more about the importance of the open messes.

Can you give me about a minute of your thoughts on the hotel program

Mr. **Boatright**. I am not aware of an extensive hotel program within the Air Force, and I will ask Colonel Fink to tell me if there is one. I am not aware of it.

Colonel **Fink**. Not within the MWR side of it, no, sir.

General **Ellis**. If I might, so the record will be straight, we are now looking at third party financing for visiting officer quarters which moves us into the commercial hotel area, because they would provide that service to us, but when we get done, even if it is built by a commercial hotel corporation, it will still be a visiting officers quarters as we traditionally know it.

Mr. **Martin**. Great, General. I appreciate that.

So you want no part of building a facility, whether it is with third party financing or whatever, that would fit the general description of first-class, luxury hotel, second to none, in this country. You would want none of that, I believe.

General **Ellis**. No, sir. We would build to our current BOQ standards.

Mr. **Martin**. We will be discussing this with the other branches of the service. I embrace your idea as far as these quarters are concerned.

Thank you very much.

Mr. **Daniel**. The staff will continue asking questions while the members vote.

Mr. Waters.

Mr. **Waters**. Thank you, Mr. Chairman.

Mr. Boatright, in your statement you mention that operation and maintenance funds may be used to provide routine maintenance and repair of MWR facilities, and it is the established DOD policy to do so.

As we review MWR projects, particularly bowling alleys and golf courses, we find O&M dollars being used for what I would describe as specific maintenance rather than routine maintenance and repair.

For example, in bowling alleys, O&M dollars are used to refinish the alleys, repair and maintain automatic pin setters and ball returns. On the golf courses, we find appropriated dollars being spent for tees, greens and sand traps.

Is that the Air Force's interpretation of routine maintenance and repair?

FUNDS FOR MAINTENANCE AND REPAIR

Mr. **Boatright**. The DOD directives on this subject of maintenance and repair of facilities is clear, that we are authorized the use of appropriated funds to maintain and repair facilities owned by the U.S. Government, including MWR facilities. We do this. We use appropriated funds for this purpose.

I think that the important point here is that we believe that the panel should not look at individual parts of our program, such as bowling alleys, golf courses, but they ought to look at the overall program.

We believe the Air Force program is the best MWR program in the Department of Defense. We believe it is very well managed.

For every $1 of appropriated funds spent in our MWR program, $2 of nonappropriated funds are spent. We believe that our record, the amount of money that we spend using appropriated funds, is consistent with the other military departments.

There is no discrepancies on that part, but you have to look at it from an overall standpoint. If you look at one individual part, then you might find that the Air Force program is different than the Army's program or the Navy's program, and you might reach the wrong conclusion, and so we ask that when you look at the Air Force MWR program, that you look at our total program, and how we manage it totally, and then the bottom line of that, how much money we spend from appropriated funds.

As I said earlier in my statement, we believe that the morale, welfare and recreation program is a vital part of the all-volunteer force. We don't believe that we can retain the quality of force that we need and to have the readiness that we need and the high morale that we need unless we have a quality MWR program; and we cannot have a quality MWR program unless we put some appropriated funds with it.

We believe that the amount of appropriated funds being mixed with our nonappropriated funds is right, and, as I said earlier, it is consistent with what the other military departments are doing, except we do some things different.

Mr. **Waters**. To back up a little bit, the panel might agree with you, but at times when the auditors of the Air Force look at an individual project on a base, and eventually it ends up in the papers, we are then required to look at it on an individual project basis.

What you are telling me, then, is that routine maintenance and repair in the Air Force includes those things I mentioned.

Mr. **Boatright**. I am not sure about—yes, it does.

Mr. **Waters**. I was recently at Carswell Air Force base in Texas, where they have a bowling alley project. There is a need, no doubt, for that bowling alley, as there is for other MWR facilities on the base.

But in our original day of hearings, Mr. Whitheurst mentioned that, as we get into the approval of construction projects, we are going to look at their operations to see that they are run in a business-like manner.

We have an existing 10 lane center at Carswell. The building and facilities are in bad shape. We are going to add 10 more alleys. The estimated cost is $1.5 million.

The Air Force is going to provide a loan for $914,000. The rest is going to be a grant, with SAC headquarters pay into the interest costs.

At the same time, it is estimated the current appropriated funds support is $80,000 a year. It is estimated this would increase to $88,000 a year with the new addition.

At the same time, the line fees are 85 cents per line now and they plan to raise them to $1 after the addition is built. But in the surrounding commercial area line fees are at $1.85. So right now the line costs are 45 percent of what they are paying in the commercial sector. We are projecting to increase them to a little over 50 percent.

I talked to the wing commander at Carswell. He is very interested in MWR. He wants to make improvements.

At the same time, he needs money. For this project we are providing a grant, and are also picking up the interest. Why can't we raise the line fees at that installation to 75 percent of what we are paying in the commercial sector?

I think in your statement you mention that the savings in MWR should be about equal to what we provide in the exchanges and commissaries. That runs about 75 to 80 percent.

Do you see any problem with the Air Force when we need funds, to raise the fees?

Mr. **Boatright**. No, I don't see any problem with that principle. We could raise the fees.

We believe that in that area, the fees outside the base, in the community, are very, very high, much higher than the standard across the country, and therefore we don't believe that we ought to gear the fee that we charge for using the bowling facilities at Carswell based on the immediate surrounding community, but instead we ought to gear a more national average of cost.

We just simply believe that $1.85 a line is extremely high, and we would not want to raise our prices up to $1.50 or $1.40 a line.

We believe that $1 a line is a very reasonable rate for us to charge, and that it gives the service member the benefit that I referred to in my statement.

I think there is another issue here that needs to be mentioned. That is, if we raise the prices of using our facilities or recreational facilities beyond what is attractive to our members, especially our lower grade members which are the ones we are really gearing these programs towards, then a lot of them will not use the facilities to the extent that they are using them today, and the overall revenues will not increase as you might project if you do it on a straight-line basis.

So we think we have to give that kind of consideration, and we believe that our commanders at our installations are the best qualified, in the best position to make these kinds of judgments.

To answer your question very specifically, yes, we can raise the fees in order to take care of other pressing requirements, and our commanders have that authority to do that.

Mr. **Waters**. Thank you.

One final question. I will address this to General Alkire.

In Mr. Boatright's statement he talked about the consolidation of commissary surcharge funds, and he mentioned there is no benefit to the Air Force from such consolidation but there were two major disadvantages. First, the Air Force would lose control to whatever corporate body would be empowered with oversight, and second, the Air Force would lose momentum in your efforts to eliminate personnel requirements stemming from operating antiquated commissaries.

I agree with both arguments even if they are parochial. I can also turn that second argument around and say that would be the principal reason for consolidating surcharges. If we listed all the commissaries in the four systems, with the most inefficient first, I don't believe we would find too many Air Force commissaries near the top.

In other words, I think we would predominantly find the other two services at the top because of their old and antiquated facilities. If we consolidated the surcharge money, or part of it, the purpose would be to eliminate the most inefficient commissaries.

Would you like to address that, General?

General **Alkire**. Well, I guess I visited in the first year almost all the overseas stores, and about 25 percent of the stores in the United States and while we have built some very nice new stores, we have an awful lot of antiquated old stores yet to go, and I believe I am correct in saying it is going to be near the year 2000 before we get through our first pass at fixing our old stores.

You know we talked this morning about Iraklion, where I am very concerned about conditions, but going past that, we have an awful lot of ratty old stores, if you will, that compete for dollars.

Congressman Nichols brought up Eielson, and certainly that is an absolute pressing requirement to expand that store, to care for the mission increase in that area.

It is scheduled for 1990, but if our cash flow works good and other considerations work, we can do it in 1989. But that pretty much demonstrates the squeeze on the program, and the fact that I am not sure that there won't be an awful lot of Air Force projects at the top of that list, too.

Mr. WATERS. Thank you, sir.

Mr. Holton.

Mr. HOLTON. Can we clear up one thing that Mr. Nichols was talking about. Aren't physical fitness centers funded with MilCon?

General ALKIRE. They are.

Mr. HOLTON. Is the project in Minneapolis a physical fitness center?

Mr. BOATRIGHT. This is a multirecreation center. It has some physical fitness aspects to it. It has some other recreational aspects.

Mr. HOLTON. Was it submitted through the MilCon process?

Mr. BOATRIGHT. No, it was not.

Mr. HOLTON. Why not?

Colonel FINK. We felt that it was more of a recreational facility than a physical fitness facility.

Also, I might add that there is a provision in the regulation which speaks to the building of facilities using military construction funds. It is in the form of a prohibition.

Mr. HOLTON. I didn't follow that.

Colonel FINK. There is a prohibition in one of the civil engineering regulations about military construction on reserve bases.

Mr. HOLTON. So it is prohibited to use MilCon money?

Colonel FINK. Yes, sir.

Mr. BOATRIGHT. I think that is probably an internal Air Force regulation, not something mandated by the Congress.

Mr. HOLTON. So it is prohibited to use MilCon money. Why do we want to use NAF?

Mr. BOATRIGHT. Well, we want to finance the project because we believe there is a requirement there for it.

Mr. HOLTON. But normally we don't build these facilities on reserve bases.

Mr. BOATRIGHT. That is right. This is a new program. We haven't built these kinds of facilities before.

Mr. HOLTON. And you are trying to use NAF money because you know you won't get MilCon money for it?

Mr. BOATRIGHT. No, I don't believe that is the reason why. The reason why we asked for non-appropriated funds was because we thought this was more of a recreational facility than a physical fitness facility.

If we had thought it was a physical fitness facility, we would have asked the military construction subcommittees for an authorization and appropriation.

Mr. HOLTON. Another area Mr. Nichols was asking about was your strategic training sites. Are we building on government land at all those locations?

Mr. BOATRIGHT. To my knowledge, we are building on government land, either leased or fee owned.

Mr. HOLTON. Are we building housing at each of these locations?

Mr. BOATRIGHT. At most of the locations we are building housing. I am not positive we are building at all locations.

General ELLIS. At most, I believe.

Mr. HOLTON. So at most locations on the list we are going to be building in the towns. We are not building housing outside the towns? We have purchased government land in the town, or adjoining the town?

Mr. BOATRIGHT. In Powell, WY, for example, we purchased a piece of property within the city limits to build our housing and our support facilities, commissary and other support facilities for the assigned force. The actual strategic training center site is located outside town, several miles away.

I think it varies. At each location it is a little bit different set of circumstances, but in fact we have either acquired land through lease or through purchase, in order to build these support facilities.

Mr. HOLTON. But some of the locations are relatively large. There are 8,000 people in one city, another is a town of about 16,000 people.

I have been to a couple of them and they are very lovely places, very nice places to live. I doubt seriously the cost of living there is the same as it is in Washington, DC.

Have you looked at what the percentage of savings would be in the commissaries at these locations versus just letting people shop at a supermarket? Are there alternatives to building these stores?

If the cost of living is higher there, and there is a great cost difference, can't we just pay these people more money rather than building a store?

Mr. BOATRIGHT. I will let General Alkire address that.

General ALKIRE. The prices studies that were done indicate that the commissary will provide a 25- to 30-percent savings.

Mr. HOLTON. In each of these locations?

General ALKIRE. I have got an average number. I can't speak to each specific location, but on an average, the savings—there are no good deals in those little towns, any more so than any place else in the United States of America. The savings is about the same.

Mr. HOLTON. When you say average 25 percent are you talking about these locations?

General ALKIRE. That is right.

Mr. HOLTON. Are there any alternatives, like pay, to building a $400,000 store?

General ALKIRE. I guess I can't respond to that.

Mr. BOATRIGHT. Obviously, the alternative is you could pay them more. I don't know as we have that authority, but in fact you could compensate individuals for the difference in pay by virtue of the fact that they shop out on the commercial market versus the commissary.

Mr. HOLTON. What are the implications for the other services?

We are now building commissaries in locations with only 75 active duty people. The Army can't even take care of locations where they have thousands of troops; their stores are in such ratty facilities.

The Air Force is saying, wherever we have 75 active duty troops we will build a commissary. This probably takes in every city in the country.

Mr. BOATRIGHT. I believe, Mr. Holton, that it is unfair to criticize the Air Force because of the condition if the Army has facilities.

The Air Force has addressed our facility requirements in a very diligent manner over the years, and we think we are taking care of our requirements, and we don't believe we should be penalized as a result of doing things right.

Mr. **Holton**. I am saying, look at the implications for the other services. If the Air Force is going to build at every location where they have 75 people, what are the Army and Navy going to do?

Mr. **Boatright**. I am not sure we are going to build at every location where we have 75 people. We addressed this in the overall context of what the requirement is at that location and what is available, what are the alternatives available to the individuals assigned there, and then we make those decisions, submit them to OSD, and then the Office of Secretary of Defense reviews those against the ceiling which is established by the Congress. OSD then either approve or disapprove our requests.

Now, they are the ones that are balancing the Army's, the Navy's and the Air Force's requirements, and we believe rightfully so, and in each case, where we have brought a commissary for one of these remote locations to this panel, we have cleared it first with OSD through this process. And we believe they are capable of managing that part of the process, and we believe that these are legitimate requirements, and that these folks deserve the commissary benefit. And if we can provide that benefit, then we want to do so.

Mr. **Holton**. Thank you, Mr. Chairman.

Mr. **Daniel**. Mr. Secretary, from time to time I hear statements made to the effect that some of our MWR facilities are run to accommodate employees rather than to serve the troops. As a matter of fact, I have made one such complaint myself.

Have you heard anything to this effect? Has anyone talked to you about this?

Mr. **Boatright**. I have had some conversations on this issue over the last several years.

Mr. **Daniel**. I believe you and I talked about it once before.

Mr. **Boatright**. Yes, sir, we did. And I believe that there is probably some truth to this at some locations.

I think that this is something that can happen in a big organization, as big as the Air Force program. It is not something we sanction, and certainly wherever we find it, we get those attitudes turned around so that the facilities are operated for the benefit of our members and not for the people who are operating those facilities.

Mr. **Daniel**. In other words, then, ou are looking at it.

Mr. **Boatright**. We believe we are, yes, sir. We are very much aware of that concern and that criticism.

Mr. **Daniel**. Let me go to another area.

General Ellis your testimony notes that AAFES construction plans include 92 fast food outlets, a $40 million distribution center, and their regular exchange construction program.

If you will, explain for the committee the borrowing arrangements that may be used to fund the Burger King projects, for example. Are there any plans to reduce the percentage of profit being split between dividends and construction?

Mr. **Boatright**. I think we will ask Mr. Phillips here, representing the Army-Air Force Exchange Service, to address that.

Mr. DANIEL. Mr. Phillips, would you come up to one of the microphones?

Mr. PHILLIPS. Yes, sir.

In the AAFES fiscal year 1986 construction program, we have basically three different segments: the regular construction program, the Burger Kings, and the east coast distribution centers.

The regular construction program would be financed from internal sources, as we do every year. The east coast distribution center will be financed from a sinking fund that AAFES established for this purpose back in 1983. The Burger Kings will also be financed initially from internal funding. However, the Board has approved external funding if required. It is expected that Burger King funding during fiscal year 1983 will be accommodated internally while funding may be external from 1986 through 1988. For external funding AAFES has a contractual arrangement with Burger King using an excellent rate based on the interbank offering rate.

Mr. DANIEL. How is that going to affect the profits being split and dividends for construction?

Mr. PHILLIPS. It shouldn't adversely affect the profits.

Mr. DANIEL. It will not?

Mr. PHILLIPS. Actually the income generated primarily from the Burger Kings will increase our sales.

Mr. DANIEL. You were talking about percentages.

Mr. BOATRIGHT. I will answer that question, if I can.

Fifty percent of the profits from the exchange service will continue to be divided between the Army and the Air Force based on our population, and so there will be no change in the amount of funds that are being provided to——

Mr. DANIEL. Mr. Secretary, excuse me, please. That is not the question.

Mr. BOATRIGHT [continuing]. I am sorry.

Mr. DANIEL. The question is, will this—what did you call it—third party financing——

Mr. PHILLIPS. Yes, sir.

Mr. DANIEL [continuing]. Will that affect the percentage of the profits being split between the dividends and construction?

Mr. PHILLIPS. It will be an additional expense, naturally, but I think in the overall it shouldn't affect it adversely.

Mr. DANIEL. Will you check into this matter further, and give us a report for the record?

Mr. PHILLIPS. Certainly.

[The following information was received for the record:]

IMPACT OF EXTERNAL BORROWING FOR BURGER KING

The borrowing of funds from Burger King to construct Burger King facilities will have a positive impact on AAFES earnings and dividends, both in dollars and percentages since these operations are so profitable. The return on investment, that is the opportunity cost of funds, for Burger King facilities ranges from 38% to 92%. Our normal guideline for return on investment is 15%. Therefore, the interest expense paid on Burger King borrowing is more than offset by the incremental earnings from Burger King facilities. Financially, both AAFES and the MWR funds profit from the external borrowing to construct Burger King facilities.

Mr. DANIEL. Mr. Martin, do you have any additional questions?

Mr. NICHOLS. No, thank you.

Mr. DANIEL. Does staff?

Mr. **Cofer**. I have just one or two.

Mr. **Daniel**. Mr. Cofer.

Mr. **Cofer**. This summer at the chairman's direction, I visited Europe, and checked on one of the priority issues before the committee and that has to do with the Armed Forces recreation center, which is the subject of a report done at the request of the committee.

The Army now is talking about a hotel to replace many of the old hotels which were built in the 1930's and we took over from the Nazis after World War II. The estimated cost is in the vicinity of $100 million.

The Armed Forces recreation center at Berchtesgaden is the largest nonappropriated recreational facility in the world. I think the statistics show over 600,000 troops and their families stay there. There are no retirees there because it is filled up all the time.

During the briefing there was a question about whether the Force was going to fund a portion of the project. Roughly, 30 percent, of military personnel staying at this facility are from the Air Force.

Has the Army coordinated their plan with you? Are you considering funding some portion of the Armed Forces recreation center, and what would be the impact on your program if you had to put up $30 to $40 million?

Mr. **Boatright**. Yes, the Army has been coordinating with the Air Force. In fact, the Secretary of the Army has requested from the Secretary of the Air Force a position on this issue.

Actually, the Army has requested that we participate, and they have suggested that it be about 30 percent. I believe that is based on what they believe to be our fair share of the facility.

Preliminary indications or results of our preliminary investigations are that in the first 8 months of this year, the Air Force used those facilities to the extent of about 11 percent of the use, so 30 percent would be considerably higher than we would be interested in being involved in at all.

We have taken this request under consideration. We are reviewing it, and as soon as we can establish a position, we will get back with the Army.

If we had to pay $30 million for the Air Force share of this, that would take care of our construction requirements for about 3 years, so we would have to delay or defer some construction that we believe possibly is of much higher priorty than the construction of this facility, at least for the Air Force's interests, but once again we are looking at it.

We do believe it would have a considerable impact on our planned construction program, on our MWR facilities, but nevertheless we understand the requirement and we do use the facility to some extent. And, therefore, we are reviewing it.

Mr. **Cofer**. I would just like to take the opportunity to clear the record and point out one thing to the witness about these reserve centers. I think this is very important.

Is the Air Force evaluating, whether to move into reserve construction? My understanding of the regulations—and this was discussed by the chairman in the House and Senate Conference these last few months—on the reserve issue of using commissaries, my understanding is that the only time a reservist can use a commissary, exchange or a MWR facility is when he is on active duty for more than 72 hours.

Is that not correct?

Mr. **Boatright**. I am told that that is correct.

Mr. **Cofer**. I have a number of other questions, Mr. Chairman, which I will submit for the record.

Mr. **Daniel**. Let me, if I can, return to the fast-food outlets.

Have you experienced any problems in connection with the construction or operation of these facilities that you had not anticipated?

Mr. **Boatright**. I am not aware of any problems, but let me once again ask Mr. Phillips to address that, because I am not real conversant on that subject.

Mr. **Daniel**. Mr. Phillips.

Mr. **Phillips**. The only problem that we have really experienced is with some of the inquiries received.

Mr. **Daniel**. That was anticipated, though?

Mr. **Phillips**. That was anticipated, yes, sir, it sure was.

Mr. **Daniel**. But nothing else?

Mr. **Phillips**. Nothing that we have not anticipated.

Mr. **Boatright**. We have had a very limited amount of experience thus far with the Burger King.

Mr. **Cofer**. Mr. Chairman, I would like to point out that, as you are aware, the Air Force did not initially sign up for the fast-food concept.

Mr. **Daniel**. Yes.

Mr. **Cofer**. Mostly, it was the Army.

I think the Air Force now has signed up for the program and has a number of stores coming in. I think the Chairman may be interested in knowing the program has been probably the most successful program in terms of generation of funds and in meeting patrons' needs, particularly overseas and around the world. The program was initiated by the panel.

Why was it that the Air Force was reluctant to get into the Burger King program? What factors entered into your mind that you decided not to proceed like the Army?

Mr. **Boatright**. I am not positive of all of the things that were considered. I would guess that one of the things that the Air Force considered was the fact that we thought we had a very good program as it was, and that we were reluctant to jump into any new program until we saw some results. And we wanted to go into it in a very deliberate way. So we probably, I guess, were a little bit more cautious than the Army in this regard, but we have learned now that the program is a good program, and we are following suit. And we look to this program as being a very successful program and will receive considerable application within the Air Force.

Mr. **Daniel**. In other words, you are pleased to admit you were wrong?

Mr. **Boatright**. Yes, sir.

Mr. **Daniel**. Is it true that you have been sharing in the Army's profits?

Mr. **Boatright**. I would guess in the sense of the exchange service, if all of the profits are put together in the Army-Air Force exchange service, and then 50 percent of those profits are allocated to the Army and the Air Force, and they are split up on a population basis. So, in that sense, yes, we have been receiving some benefit from the Army's program.

Mr. **Daniel**. Mr. Waters, do you have any additional questions?

Mr. **Waters**. No, sir, Mr. Chairman.

Mr. **Daniel**. Mr. Martin.

Mr. **Martin**. No, sir. Thank you.

Mr. **Daniel**. Mr. Holton, do you have any additional questions?

Mr. **Holton**. We have talked for the last few years about the time it takes to build and the costs of some of these projects. Looking at some of the figures provided this year, you are still taking 2 to 4 years to design and build clubs, commissaries, and so forth.

Have you ever considered by-passing military channels altogether and going out to a commercial firm saying, build a grocery store, or a bowling alley, with a turnkey operation? Have you ever considered doing that?

Mr. **Boatright**. We have considered using turnkey in a number of Air Force construction projects. It is somewhat difficult in the appropriated side because of some of the rules and regulations that we have to comply with.

I believe that in the commissary construction business—and I also believe it is true in the Army-Air Force exchange service construction business—that we are basically doing just that, using commercial standards. We are designing the facility and then going and getting a construction contractor to do it for us. We believe that the times there are reasonable times.

As General Alkire mentioned, for the commissary service, we are trying to reduce those times. But we don't believe that the times that we have on some of those projects are unreasonable. On some of our other facilities, there are a number of delays that we have experienced in the review process because we have a number of people that are involved in reviewing and agreeing on what it is we are going to build. And I think that there are some real opportunities there for some improvements.

Turnkey approach is certainly an approach that might make some sense and one that maybe we ought to explore more in the MWR area.

Mr. **Holton**. Let's talk about the use of appropriated funds. When Colonel Fink and I were in Mississippi we stopped at one base and they had just acquired two deep-sea fishing boats. One of the boats held six-passengers for deep-sea fishing. You can never make a profit with this boat; it will always lose money. They forecast losing $100,000 a year by operating this boat.

When I asked base MWR personnel how they were going to get to a break-even point operating the boat, they said, well, one of our solutions is to hire an appropriated fund captain. That was their solution. They were treating appropriated dollars as funny money. They are going to use appropriated dollars to subsidize a losing operation.

What is the rationale for doing that?

Mr. BOATRIGHT. My reaction is that that is not a very wise thing to be doing. I am not aware of the particulars here. Maybe Colonel Fink is familiar with this.

Colonel FINK. Yes, I am.

The captain of the boat in question is a temporary seasonal overhire employee. They recognized that one of the boats is of limited capacity as far as the number of people that it can accommodate at one time. But the intention was that they look at the two boats as a package. The other one is much larger in the sense that it is a party-fishing boat.

They have structured the price on the fishing so that the ultimate goal would be to have those two boats as a package to break even. They have priced the actual fishing trips for technical sergeants and below, and then above technical sergeants differently—in fact, twice as much if you are the higher rank. This gives more opportunity to the younger people. Although they have only had the boats a limited amount of time, the primary use has been by the low ranking people and their families.

As I said, we had a short season this year. They just got the boats this summer, and unfortunately it was disrupted by the hurricane. So we don't have much of an experience with it. It was pretty much of a learning experience this year, and I expect the prices will be higher in the future.

Mr. BOATRIGHT. Were these boats purchased?

Colonel FINK. No. They were seized in the drug operation. We have them on loan from the drug enforcement people.

Mr. DANIEL. Let me follow up on that question, if I may. The staff has reported to me from time to time that, in visiting some of the marinas, they have found both retiree and civilian boats, some of them up to 50-foot boats. I have always heard, if you buy a 50-foot boat, you don't ask how much fuel is used. Yet, the Air Force is paying for the utility expenses of these boats with O&M funds.

Are you familiar with that, Mr. Secretary?

Mr. BOATRIGHT. I am not familiar with any particular use of the facilities where a large boat such as a 50-foot yacht is using a facility and appropriated funds are paying for the utilities.

I do know that our marinas, we do operate those with some appropriated funds for it, and we would probably not break it down per individual slip. And if there was somebody using that facility, such as a retired individual, we would not probably compute the amount of utilities being used by that one slip and require them to pay, but instead we would compute the overall rate based on some overall computation instead of an individual slip computation.

But I do not believe that we would sanction that kind of use of a facility.

Mr. DANIEL. I hope you will not, because if I read the mood of the Congress correctly at this time, a lot of the things that you have been doing, you are not going to be permitted to do in the future. I hope we will start looking at some of these. Although they are small, it is something that could cause a lot of problems if they are not corrected.

Mr. BOATRIGHT. Let me assure you we will look into that issue, to be sure that what we are doing is wise and prudent.

Mr. DANIEL. Thank you.

Are there any other questions?

There are several other questions that we will submit for the record. We appreciate your attendance and your contribution to the record.

[The following questions were submitted to the witnesses to be answered for the record:]

QUESTIONS FOR AFCOMS

Question: AFCOMS recently requested approval for an additional $300,000 for a commissary project at Williams AFB in Arizona. The current estimated cost for this project is $930,000 versus the $630,000 originally approved.

The reasons given for the increase include:

-- a redesign so rest rooms would meet DOD criteria;

-- reconfigured offices, and

-- additional space for optical scanning.

The design on this project started in October 1983 and was to be 100% completed in August 1984.

Why weren't these problems found earlier? Who is responsible for these changes and, more importantly, who has the authority to limit redesigning projects after they are started?

Answer: When original bids were rejected due to the determination that they were too high, a redesign of the project was required by procurement regulations before the project could be readvertised. A determination was made at that time to make internal changes to enhance the functional layout of the commissary without affecting the original scope of 7,000 SF. The changes incorporated were previously known and required, but had been deferred due to severe funding limitations when the original project was developed. With passage of approximately two years, fund constraints eased and it was possible to design the total requirement. AFCOMS Board of Directors (BOD) approval was granted at the increased funding level.

In the past year, AFCOMS has established the policy that all foreseeable work required in a store would, to the greatest extent possible, be done at one time. This policy should preclude future design adjustments such as occurred at Williams AFB.

Changes were made by AFCOMS engineering in response to functional user requests and the latest design criteria. The scope and funding levels were approved by the BOD.

Question: A number of your stores in this year's program were approved last year. The projects resubmitted this year contain five projects with changes including:

-- Wee Serv stores deferred or reduced in size, and

-- projects were redesigned.

Why did these changes occur? What were the reasons and costs incurred?

Answer: In Nov 84, the AFCOMS Board of Directors curtailed the Wee Serv store program, limiting actual construction to previously programmed and designed FY 84 and FY 85 projects. This deferral action was taken due to the following reasons:

-- Construction funding limitations resulting from apportionment of surcharge funds had deferred the construction program. Deferring this program allowed AFCOMS to satisfy more pressing construction needs.

-- Since the design for several projects was at a point where constructing the Wee Serv portion of the project could be conveniently deferred, construction of Wee Serv stores at these locations was deferred until such time that the constructed Wee Servs could be operationally tested to validate operational feasibility, merchandise requirements, and optimum configuration.

The stores that were under design with Wee Servs in the original scope were designed to accommodate Wee Servs at some later date, if a decision is made to reinstate the program. Wee Serv space was designed into the warehouse area with necessary utilities extended to the area.

In addressing redesign, some projects were redesigned to eliminate the Wee Serv stores while others were redesigned for various reasons. These are as follows:

-- Bangor IAP ME: A mandated reduction in scope and cost. Redesign costs incurred - $63K.

-- F.E. Warren AFB WY: Reduction in Wee Serv size from 4,100 SF to 3,000 SF and a joint AFCOMS/AAFES enclosed walkway. Redesign cost incurred - $23K.

-- Peterson AFB CO: Increase in project scope due to increased population projections associated with Space Command activities in the Colorado Springs area. Redesign cost incurred - $21.5K.

-- MacDill AFB FL: Scope and concept of the project were revised from a two store concept to a single store concept which reuses a portion of the existing store. The total design cost incurred - $490.8K.

Question: AFCOMS is renovating some stores to include bakeries and employee break rooms. What is the background for these initiatives and the projected cost over the next five years?

Answer: As the Air Force Commissary Service (AFCOMS) has developed and improved its data base for identifying and validating facility construction needs, it has also improved its ability to structure some construction requirements into categorical programs which can be addressed throughout the Commissary Service. These categorical programs provide flexibility and efficiency in addressing specific needs that occur at several store locations. Structuring specialized programs also allows the Commissary Service to respond to rapidly changing merchandising methods and keep up with marketing trends.

At present, shopping patterns have led to increased demand for fresh-baked breads and pastries. In response to this demand, the AFCOMS is currently implementing an in-store bakery program as a part of the AFCOMS five-year construction program. This initiative provides for a bake-off bakery capability in selected commissary stores where anticipated demand will support these projects. A bake-off bakery prepares a selection of fresh baked foods from frozen bakery products.

Programmed costs for bake-off bakeries in the proposed five-year construction program are as follows:

-- FY 86 - $ 500K (currently approved)
-- FY 87 - $1,000K
-- FY 88 - $1,000K
-- FY 89 - $ 0K
-- FY 90 - $ 0K
-- TOTAL - $2,500K

The program to improve employee breakrooms was developed in response to a pressing need to improve and upgrade the employee work areas in our Air Force commissaries. There is a wide disparity in current breakrooms, ranging from a corner of a warehouse with tables and chairs in older stores to a fully-equipped breakroom in our new stores.

In response to this Commissary Service-wide need, a categorical program has been implemented to improve employee breakrooms at all store locations. Individual project requirements will vary from installation to installation depending on need. AFCOMS has developed definitive standards and criteria on what decor, furniture and fixtures should be provided in all breakroom areas. Where needed, it is estimated that average project costs will run $20,000 per installation to bring these breakrooms up to current standards. A total of $2.0 million has been approved over a two-year period to complete this program.

Question: Please explain what it is going to cost to operate the stores at the Strategic Training Sites. Are the stores being built on government property? Are we building housing at each location?

Answer: We anticipate the direct appropriated fund support to operate commissaries at the Strategic Training Sites to be approximately $110,000 at each location per annum. The stores are being built on government property. Since no dining facilities will be constructed at any of the sites, the commissary will be the only on-site source of food for assigned personnel. Housing facilities for families and unaccompanied personnel are being built at Powell, Havre, Forsyth, Conrad, Belle Fourche and La Junta. Community housing is available for Dickinson and Wilder.

Question: The Army takes considerably longer than the Air Force to build its commissaries.

Please summarize the significant differences between your two systems. Are there any initiatives to use your system to build Army stores?

Answer: The significant differences are as follows:

	AIR FORCE	ARMY	DIFFERENCES
Design	6 months	12-18 months	6-12 months
Construction	13.5 months	18 months	4.5 months
TOTAL			10.5-16.5 months

There has been no formal initiative taken to build Army commissaries using the Air Force system.

Question: DOD has proposed eliminating a formal criteria for sizing commissaries. What effect will this have? How will the Air Force size its new stores?

Answer: In a memorandum dated 18 Jan 85, the Deputy Assistant Secretary of Defense (Installations) eliminated the DOD space criteria for sizing commissary stores. The OSD recognized the old criteria was obsolete and authorized each service to size stores according to the criteria and requirements of each individual site.

For a number of years the Air Force recognized the deficiencies of the formal criteria with respect to sizing commissary stores. In an effort to overcome these problems the Air Force was granted a waiver to the DOD criteria to develop and test a new store sizing method that would give consistent, valid and reliable results. The Air Force Commissary Service (AFCOMS) developed and implemented a computer sizing model which overcame the deficiencies of the formal criteria and provided a rational and efficient method for sizing commissary stores.

When the DOD criteria was eliminated, AFCOMS developed a regulation which formalizes space criteria for sizing Air Force commissaries. Space criteria is based on sales volume. This regulation is currently being published for distribution. It implements the computer sizing model; establishes duties and responsibilities; provides for a steering committee to coordinate changes and usage of the computer sizing program; and establishes maximum size limits for commissaries. Space requirements in excess of the maximum allowable are submitted to the Secretary of the Air Force for approval prior to submittal as part of the annual NAF Report to Congress.

Question: Last February, some of your board members suggested that commissary sales are off because your stores are open when people are working and not open when they are shopping. There seems to be a need to adjust your operating hours to better meet the shopping patterns of the active duty.

What are you doing to rearrange your operating hours?

Answer: We have made substantial progress in expanding our hours of operation within our budgetary constraints. Our main thrust has been to make sure we are serving single parent families and single military members as well as those families that have two working spouses. Since February 1985, we have expanded hours in 48 stores, mainly by adding an extra shopping night. These stores have increased their customer count by four percent. We have also opened on Sundays in 11 stores, nine in the U.S. and two overseas. Two more overseas stores will start opening on Sunday in late October 1985. Sunday openings have increased our customer count in these stores by eight percent. We feel we have been very successful in rearranging our operating hours to meet the needs of our patrons and we will continue these efforts.

QUESTIONS FOR MWR

Question: The Air Force Audit Agency issued a report last year that revealed what some commands were doing with their MWR funds. They were spending the funds on:

-- sending commanders and their wives to banquets, receptions and military balls;

-- paying for hula dancers, ice carvings and drinks at parties; and

-- providing gifts for senior officers, civilians and their wives.

Given these types of abuses of Airman's MWR funds, what have you done to (a) prevent further abuses, and (b) start monitoring how these funds are used?

Answer: Air Force regulations authorize commanders to spend a small portion of their MWR funds for the general benefit of their command. These funds are referred to as Special Morale and Welfare and represent less than one-half of one percent of welfare fund income. The purposes for which commanders may use this expenditure authority are limited. For example: expenditures may be made for individual recognition ceremonies; military promotions and retirements; and civic affairs and events intended to enhance the morale of the unit by fostering good relations between Air Force personnel and civilian communities. The number of "abuses" cited in the report was small. As a result of the audit, more definitive guidance on the use of military welfare funds for special morale and welfare purposes was published in November 1984. In addition, a letter was sent from the Air Force Vice Chief of Staff to major commanders which requires their personal involvement to assure all field commanders follow the new guidance. Major commanders are required to personally review quarterly reports of expenditures from subordinate commanders and to establish specific procedures for the careful control of these expenditures in their own headquarters. Field commanders were cautioned to be conservative in making expenditures and to give this matter their personal attention and close scrutiny. In addition, periodic staff visits from the Air Force Welfare Board Executive Secretariat will be made to major commands to review program management. Further, in accordance with the Federal Managers' Financial Integrity Act and OMB's Circular A-123, the management of expenditures has been included in the Air Force Nonappropriated Fund Vulnerability Assessment Program. Under this program, a worldwide internal control review will be completed by February 1986.

Question: The initiative to build fast food facilities will generate millions of additional profits each year. I understand the Air Force is sharing in the Army profits.

How are these profits being shared and distributed?

Answer: Profits from Army fast food facilities are part of overall Army and Air Force Exchange Service (AAFES) earnings. There is no distinction between the profit earned by Army or Air Force Burger Kings just as there is no distinction made between earnings generated by AAFES-operated Army or Air Force retail, food service, or concession operations. AAFES distributes 50 percent of its net earnings to the Army and Air Force MWR programs as dividends. The Air Force share of AAFES dividends (based on troop strength relative to that of the Army) is approximately 42 percent. Thus, we share the AAFES-operated Army fast food facility profit just as we do the profit of other AAFES activities. It should be noted that as Burger King facilities become operational on Air Force bases, their profits will likewise be shared with the Army.

Within the Air Force, dividends from AAFES are divided between central funds for construction (25 percent) and allocations to the MAJCOMS and bases (75 percent). MAJCOMS have the flexibility to adjust the allocations to the bases -- depending on their need. Air Force policy is that we offer the same type of activities at the small bases as we do at our larger bases. The allocations are used to support our people programs as well as for minor construction and alteration for facilities housing these activities. Our system is a well thought out financial program which provides commanders the funds and flexibility to run their programs. It is also returning to the member, in the form of MWR programs, some of the money each spends in AAFES-operated outlets.

Question: The panel has learned that a number of bowling centers and golf courses in major metropolitan areas have received waivers and do not pay their own utilities.

What is the rationale for such waivers? Why can't these "revenue generators" produce sufficient profits to pay their own utilities?

Answer: In 1978, DOD issued a policy that requires bowling centers and golf courses near urban (metropolitan) areas to pay utilities. Bases which are not near such areas are not required to pay for utilities. DOD also authorized the services to grant a limited number of waivers for activities which are essential to a well-rounded MWR program located where comparable civilian facilities are not accessible at acceptable levels of fees and charges. We added the criteria that the bases must demonstrate the requirement to pay utilities will significantly and adversely affect the availability of base welfare funds. The Air Force Comptroller and Civil Engineer must agree with the waiver. Although bowling centers and golf courses are "revenue generators", they are not separate fiscal entities -- they are parts of the central base fund at each base. Their revenues are combined with any generated by other welfare activities. Bases which have received waivers have successfully established that the activities involved are essential to a well-rounded MWR program and that comparable facilities are not available or accessible at acceptable levels of fees and charges in the local area.

Question: We were briefed on the Randolph bowling program recently. The bowling center is a "well equipped, well staffed operation with standards much higher than those of off-base facilities" yet the fees, on the average, are 45% less than off-base facilities.

The bowling center has a civil servant (GS-8) manager. APF is used to resurface the 24 lanes and for other building maintenance.

During 1984, the bowling center generated a $135,000 "profit" but also used over $109,000 in APF.

Isn't this is an example of how we are transferring funds, APF to NAF, to say we have a "profit" while subsidizing this operation?

What guidelines do you have for setting MWR fees and charges? Are there, or should there be, specific goals for revenue producing activities? What range of savings should these activities attempt to achieve?

Answer: The Air Force does not "subsidize" any bowling program. The appropriated fund support to bowling protects the taxpayer's interests and property and provides our members with activities which enhance their physical fitness and morale. It must be recognized that the major share of appropriated fund support is in the form of fixed support (facility maintenance and supervision). Inasmuch as these facilities are government-owned and on the real property records, these expenses are correctly allocated to appropriated funds. Air Force Regulation 215-1, Air Force Morale, Welfare and Recreation (MWR) Programs and Activities, requires a triennial survey that includes comparisons of prices and evaluation of the availability of similar off-base services. Additionally, in 1984, we published a program aid that outlined general ranges of savings that bases should attempt to achieve. These are general in nature to allow the local commanders the flexibility to establish fees and charges that correspond to the need for nonappropriated funds at their bases and which the military members and their families can afford. As a general rule, our MWR fees and charges are designed to provide savings to personnel approximating those provided by exchanges and commissaries.

Question: The Air Force program contains a project at Andersen AFB on Guam. The $3.8 million project is a 40 unit temporary lodging facility. The average cost is $94,000/unit -- compared to less than $50,000 per unit in CONUS.

What facilities does the base now use to temporarily lodge its personnel?

Since construction costs are so high on Guam , what alternatives -- such as using existing buildings -- are available for temporary housing?

Since personnel receive a TLA to offset commercial hotel costs, what is the compelling reason for this TLF?

Isn't this project eligible for MILCON funding? If so, has it been requested through MILCON channels? If not, what was the rationale for a waiver?

Answer: The construction costs at Andersen AFB, Guam, are high; however, the $94,000/unit cost is justified. The cost for this temporary lodging facility (TLF) was developed using $65 per square foot (the DOD approved unit price) times the area cost factor for Guam of 2.15.

There are no TLFs to house families in a permanent change of station (PCS) status at Andersen. There are 132 rooms to house officers on temporary duty. The current occupancy rate is 110 percent. Greater than 100 percent occupancy is achieved when officers are lodged two per room during high demand. There are 80 rooms to house enlisted personnel on temporary duty. The current occupancy rate is 79 percent.

An alternative source for temporarily housing PCS families is to use surplus military family housing, if it exists. There is no surplus military family housing on Andersen AFB. Other alternatives would be to redesignate visiting officer/airmen quarters or accompanied personnel housing to temporarily house PCS families. The occupancy rates for visiting officer/airmen quarters indicated above preclude redesignation. Also, extensive construction would be required to convert these facilities for family use.

Due to the nonavailability of on-base temporary quarters and declining commercial lodging availability, a temporary lodging facility is needed. The occupancy rates of the major hotels are extremely high at all times due to tourism. When families do secure hotel lodging, it is approximately 12 miles from the installation (30 to 40 minutes travel time) with no public transportation available. The nearest off-base dining facility is ten miles. Incoming PCS families do not have a car initially. Due to the distance of hotels and restaurants, transportation is critical to them. An on-base temporary lodging facility is imperative.

DOD policy authorizes MILCON funding for TLF's overseas when avoiding expenditures of other appropriated funds (e.g. TLA, BAQ, etc). The Andersen AFB project was identified for the NAF construction program prior to publication of this policy. Release of this project is necessary to alleviate the undue hardships placed on our Air Force families when they are assigned to this location.

Question: It is our understanding that not all of the 92 fast food facilities shown in the programs requested by the Army and the Air Force will, in fact, be built in fiscal year 1986.

Please provide for the record those projects that will not be built in fiscal year 1986.

Answer: As of October 31, 1985, Air Force fast food facilities originally programmed for fiscal year 1986 accomplishment will not be built at the following locations: Bergstrom AFB TX, Grissom AFB IN, McChord AFB WA, Myrtle Beach AFB SC, Patrick AFB FL, Plattsburgh AFB NY, and Sheppard AFB TX.

Question: General Ellis: Are you a member of DOD's MWR Coordinating Committee?

What is your opinion of its effectiveness in providing oversight for the MWR community?

Answer: I am not a member; however, Colonel Richard Fink, the Air Force Director of MWR, is a member of the DOD Coordinating Committee. In his opinion, the Committee has been very valuable to the Air Force in two areas. First is the area of oversight of the MWR community. The Committee and its operating subcommittees have provided an unparalleled opportunity for review and discussion of DOD policies. This has involved not only cases where DOD has directed certain actions by the services, but also in some instances where the services, through the subcommittee structure, have made recommendations to DOD for new regulations and policies. These subcommittees cover a wide range including financial matters, child care, personnel policies, construction, and recreational programs. The second positive contribution is the beneficial effect that we gain from being more aware of each other's programs and the problems and solutions that have been worked out. This provides an excellent opportunity for the services to offer more effective MWR programs at lower costs through the sharing of a variety of ideas and programs. As an example, the Navy teaches a joint service culinary course for open mess personnel. The Air Force, on the other hand, conducts a higher level course for open mess food service management personnel. We thus avoid duplication of effort through the joint service approach. Another example is the Air Force is presently adopting a US Marine Corps-developed NAF payroll system. These and other examples of interservice cooperation have been very helpful and we foresee a continuation of this close cooperation.

Question: Some bowling centers and other revenue generators have appropriated fund employees working in them. Your testimony mentions this is needed for command, control and executive supervision.

What is the rationale for these positions? Why aren't these activities managed totally with NAF employees?

Answer: DOD directives authorize appropriated fund (APF) personnel in these activities to supervise and operate the MWR programs involved. They manage the operations, account for APF resources, and ensure that commanders have adequate support to meet their assigned responsibilities. Within the Air Force, our policy is to authorize one APF position to function as the bowling center manager at each base. All other bowling center personnel are paid from nonappropriated funds.

Question: The Air Force is deriving millions of dollars from its slot machine operations. What is the expected amount of profits for 1985?

Answer: Our slot machine profit for fiscal year 1985 amounted to $17M. We project these profits to be distributed as follows:

a. Base Welfare - $.9M - received at overseas bases which have slot machine operations. Used for MWR programs.

b. Base Open Messes - $3.6M - received by open messes at overseas bases which have slot machine operations. Used by the open messes.

c. MAJCOMs - $8.9M - received at MAJCOMs which have slot machine operations (PACAF, USAFE, TAC (Howard AFB, Panama), and MAC (Rhein-Main AB, GE)). Slot machine profits can be used for construction or MWR programs as determined by the commander.

d. HQ USAF - $3.6M - these slot machine profits will be used to build open messes Air Force-wide. The amount distributed to HQ USAF will increase each year and by 1991 will represent 40 percent of the profits.

Question: The 1984 Air Force-wide Leisure Time Survey ranked outdoor recreation as the most important NAF program after gyms and libraries.

Yet, in looking at the Air Force program we don't see many projects for outdoor recreation.

Why is that? Why do we continue to see emphasis placed on building the more traditional facilities like bowling and arts & crafts centers which have relatively low ranking by the service members?

Answer: Generally speaking, the outdoor recreation program is designed to take full advantage of the outdoor environment in its natural state thus requiring only a few construction projects. Those that have been developed (e.g., jogging and nature trails, picnic pavilions) require a minimal outlay of funds, usually within the base's or major command's funding authority. The MWR Leisure Time Survey for 1985 ranks bowling and arts and crafts relatively high compared to other programs. The use by our active duty members and their dependents shows a definite continuing need for such programs and facilities. Both of these, by the nature of the programs, are facility dependent and better facilities result in increased use by our people.

Question: Your statement describes the process of how projects are selected and prioritized. This is basically a "bottoms up" process that leaves most of the responsibility at the base and major command levels.

The panel, however, in reviewing projects over the last few years, has found both the installation and major commands not doing an adequate job determining what facilities troops want. We seem to be building facilities that the base commander or the MWR staff want -- not the troops!

How do you verify these organizations are doing an adequate job in building projects the troops want the most? Have you considered going to a top down system?

Answer: The Air Force does not agree that our bases and major commands are not doing an adequate job of determining what facilities our troops want. The priority system used for determining facility need was developed in conjunction with our major commands and subsequently reviewed and approved by the Air Force Welfare Board (AFWB). As recognized by the GAO in its report "Proposals for Enhancing DOD's Morale, Welfare, and Recreation Construction Program", dated August 27, 1980, "The Air Force has developed the most sophisticated system for setting priorities." Since then, we have made a number of refinements to this system. The system requires that the base prioritize and submit requirements to the major command. There the requirements are reviewed and given a command priority and submitted to Air Force. The identical priority system is applied and an Air Force-wide priority list is developed. This list represents our best effort at identifying our real requirements. In addition, all projects over $500,000 are reviewed in the Office of the Secretary of the Air Force before being submitted to the Panel. We do not believe a "top-down" system can adequately meet our bases' needs. Our system parallels the MCP and budget system where everything starts at base-level and works up. It is at base level that the most accurate assessment of troop desires and needs can be made.

Question: Your testimony notes a multi-year temporary lodging program that will build over 1,000 rooms at 38 locations. Please provide your TLF program for the record.

Please explain any initiatives you may have in building overnight accommondations that would replace or supplant current billeting activities -- like BOQ'S and BEQ'S.

Answer: The following information regarding the construction program for temporary lodging facilities is submitted:

FISCAL YEAR	BASE	NUMBER OF UNITS
83 and prior	Bolling AFB DC	50
	Brooks AFB TX	8
	Carswell AFB TX	18
	Clark AB PI	60
	Columbus AFB MS	20
	Eielson AFB AK	40
	Hanscom AFB MA	30
	Incirlik AB TU	50
	K.I. Sawyer AFB MI	20
	Langley AFB VA	60
	Laughlin AFB TX	25
	March AFB CA	24
	Maxwell AFB AL	30
	RAF Mildenhall UK	40
	Reese AFB TX	25
	Sheppard AFB TX	50
	Tinker AFB OK	40
	Tyndall AFB FL	40
	Vance AFB OK	10
84	RAF Bentwaters UK	40
	Nellis AFB NV	60
85	Altus AFB OK	10
	Comiso AB Italy	32
	Dyess AFB TX	40
	Goodfellow AFB TX	20
	Hill AFB UT	40
	Los Angeles AS CA	19

FISCAL YEAR	BASE	NUMBER OF UNITS
	Osan AB KO	16
	San Vito AB IT	30
86	Andersen AFB, Guam	40
	Lajes AB, Azores	30
	RAF Upper Heyford UK	30
87	Bergstrom AFB TX	40
	Pease AFB NH	20
	Randolph AFB TX	30
	Shaw AFB SC	40
88	Projected $5 million expenditure at two bases (to be determined) totaling approximately 100 units.	
TOTAL NUMBER OF BASES:	38	
TOTAL NUMBER OF UNITS:	1272	

Answer (cont.): We have a requirement for approximately 400 additional visiting officer quarters (VOQ) rooms at Bolling AFB DC and 250 VOQ rooms at Wright-Patterson AFB OH to billet members on temporary duty (TDY) at these two locations. With hotel industry input, a multi-functional team examined 17 different approaches to meet the requirements at these two locations. These approaches included a number of on- and off-base combinations of government and private sector financing, construction, operation, and ownership. After evaluation, the 17 approaches were narrowed to the following primary alternatives:

a. Use of existing off-base hotel facilities at prevailing market rates;

b. MILCON funding for construction of a VOQ with government ownership and operation; and

c. private sector financing, construction, and operation of a new on-base VOQ.

The three alternatives were subjected to a life-cycle cost analysis by a consultant contractor. The initial assessment shows the private sector alternative (alternative c) to be more cost effective. The consultant contractor is finalizing the hard figures for submission to the Air Force. Concurrently, we're working on developing a business strategy to execute this private sector alternative if it turns out to be the most desirable. At the moment, the best strategy appears to be lease a parcel of government land at each base to a private party who would finance, design, construct, operate, and maintain a VOQ using the authority of Title 10 USC Section 2667. If we follow this strategy, we would be seeking a mid-price, mid-quality facility to satisfy our VOQ needs and would report our action to the Congress under the requirements of Title 10 USC Section 2662. If the private sector alternative turns out to be undesirable, we would submit these VOQ requirements at these two locations for MILCON funding consideration. We are engaged in an innovative approach to determine a new and better way to accommodate our TDY travelers at a lower cost to the government. These initiatives will help to achieve the administration's policy of reliance on the public sector to provide more of our needs and the desire of Congress to attract private sector capital investment.

Question: The latest estimate of the average construction cost per unit for your temporary lodging program is $35,819 for a 375 sq. ft. unit. This does not include land cost.

We have been told that commercial builders can construct units for less than $25,000 including land.

Have you compared your construction costs to commercial facilities? Are there any lessons that can be learned from commercial builders?

Answer: The average construction cost of $36,891 for a 375 square foot unit represents the cost to the Air Force to construct 13 temporary lodging facilities (TLFs) containing 415 units located in ten different states.

The $25,000 cost for private contractors represents the average unit cost for one project: the Hospitality Inn, Pensacola FL. There are distinct differences between this Hospitality Inn and a typical Air Force TLF.

Air Force representatives toured this Hospitality Inn. It was well managed, but the units contained only 320 square feet and lacked privacy. The units could sleep four people. The lack of a wash basin in the bathroom meant the kitchen sink had to be used for shaving, brushing teeth, etc. Cooking was limited to snacks and TV dinners. The unit came equipped with only a small microwave oven and a toaster.

Air Force TLFs have complete kitchenettes, dining counter, and a full bathroom. Privacy is provided by one small bedroom and these units also sleep four people. The Hospitality Inn provides comfortable accommodations for a family of four staying overnight, but does not meet the needs of an Air Force family on an extended stay while securing permanent housing.

The Air Force compared construction costs of TLFs to construction costs of commercial facilities. Analysis revealed that a private contractor can build a 320 square foot unit similar to the "Hospitality Inn" complex on an Air Force base at $25,719 per unit. However, this design does not meet Air Force standards for privacy, a complete kitchen and bathroom. Land costs for construction off-base are offset by higher labor wages required for construction on-base because of the Davis-Bacon Act.

Question: The Air Force programs about $5 million per year for its temporary lodging program. This money is generated from a $6 per night assessment that is added to the normal room charge. The current average rate at your TLFs in CONUS is $18, comprised of a $12 room charge and the $6 assessment.

How can you operate these motel operations at $12 per night? What expenses are being covered by the room charge and what are being borne by the taxpayers?

Answer: The room charge covers maid/custodial services, capital expenditures such as purchase of telephone systems and telephone service charges (other than long distance). Appropriated funds are used in accordance with DOD policy. This policy permits appropriated funds to be used for furnishings, expendable supplies, operations and maintenance, and utilities.

Question: The Air Force temporary lodging program is expanding its unit size from 375 sq. ft. to 450 sq. ft. This size unit will house up to five people.

What market are you trying to satisfy with these TLFs? Is it the E1-E4 segment or some other group? What is the reason for expanding the unit size?

Answer: The main consideration in deciding to expand TLFs from 375 square feet to 450 square feet was the percentage distribution by Air Force family size. A 450 square foot design to house a family of five will accommodate 95 percent of Air Force families. Whereas, a TLF of 375 square feet that houses a family of four will accommodate only 83.4 percent of Air Force families. Large families that exceed the capacity of each unit can occupy more than one unit with adjoining doors. However, an additional room charge (no assessment) is collected. By designing for a family of five, we are able to minimize the daily cost to large families. Quality of life issues were also considered in expanding the square footage. Some of the sponsors begin shift work duty while still residing in TLFs. The 450 square foot design better accommodates their sleeping needs than the 375 square foot unit. Some families have small children that require a crib. Further, many families of four have older children of the opposite sex who do not normally share the same bed and who need privacy in dressing. Thus, additional square footage is needed to accommodate the extra sleeper-type furniture or cribs. Overall, the needs of the Air Force family dictated the change.

MULTIPLE RESPONSES

Question: McDonald's and Burger King are building their outlets on installations in less than a year. It takes the government several years to build commissaries and MWR facilities.

Have you analyzed how and why these commercial firms can be so responsive? Are there any lessons to be learned from the fast food construction?

Answer: The Army and Air Force Exchange Service (AAFES) is constructing the Burger King facilities on Army and Air Force installations worldwide - not Burger King. We can reduce the time required for design and construction of Burger King facilities for the following reasons:

a. AAFES dedicates necessary resources to complete the Burger King restaurants.

b. There are three standard Burger King designs with plans and specifications site adapted by Burger King. Architectural features (facades, brick, doors, etc.) are standard and there is no local option to vary from these standards.

c. The buildings are relatively small in size, are normally free-standing and can be located on a relatively small site.

d. All equipment is preselected and purchased only from sources approved by Burger King.

e. Contractors who specialize in construction of fast food restaurants are invited to participate and submit bids.

Site adaptions of a standardized facility is a lesson to be learned. We are constrained in this matter due to requirements for matching existing architecture in the community center at each base. Commissaries and large MWR facilities often required extensive redesign of foundation, heating, ventilation, and air conditioning, and utility support system. We use commercial standard specifications to design commissaries in lieu of the Corps of Engineers Guide Specifications. This results in less expensive facilities. The time spent obtaining competitive bids versus the negotiated fast track method used by commercial firms extends the time to construct our facilities. Commissaries require a 12-month construction period in the CONUS, but we recently began constructing a new commissary at Altus AFB OK, that specifies a 10-month construction period.

Question: The time and cost it takes to construct these basic business facilities really appears excessive. For example, it takes two to four years to design and build projects like clubs, bowling centers and commissaries.

What is being done to reduce the time and cost for these projects?

Have you ever considered bypassing the military construction channels completely and hiring a civilian firm that specializes in grocery stores or restaurants to design and build these facilities?

Answer: Normally it requires two years to design and construct clubs, bowling centers and commissaries in the CONUS. It often takes an additional six months to construct overseas.

The design and procurement time are as short as economically feasible. As a test case, we have reduced the construction period for the Altus commissary to ten months. We will evaluate this project to determine if additional costs will be incurred by reducing the construction time. A ten month construction period is the minimal feasible time. The refrigeration system (which takes the longest to complete) requires approximately eight months for a contractor to procure, install and test.

We considered bypassing military construction channels by hiring a civilian "construction manager" firm to design/build commissaries. Current legislation permits and encourages this. We have been unable to reconcile the potential for "conflict of interest" when one firm designs and builds a facility. We will press the issue because we believe savings are possible and desire to test the concept.

Question: The Army uses the entire AAFES dividend to centrally fund facility construction and depends on each installation to fund its own programs. As noted in your testimony, the Air Force takes the opposite approach and allocates 75 percent of its dividends for programs and 25 percent for construction.

Please explain the Air Force philosophy for allocating their dividends? What mechanism do you have to ensure that these monies are being spent properly and to support the most desired programs?

If your construction needs increase, would changing the 75/25 dividend ratio be a possible alternative to generate additional construction funds?

Answer: Dividends from the Army and Air Force Exchange Service (AAFES) are divided between Air Force-level central funds for construction (25 percent) and allocations to the MAJCOMs and bases (75 percent). Our policy is that our people programs offer the same type of activities at the small bases as they do at our larger bases to the extent feasible. The allocations are used by the bases and MAJCOMs to run our people programs as well as for minor construction and alteration of facilities housing our activities. Our system is a well thought-out financial approach which provides commanders the funds and flexibility to run the programs needed on their bases. The major commands are responsible for overseeing expenditures at their bases. Both bases and major commands have NAF councils which provide recommendations on funding priorities for programs and facilities. These councils are comprised of a cross-section of the commander's staff and represent interests of the military community in NAF matters. It is a special interest item on Inspector General and Management Effectiveness Inspection visits. Command MWR staff assistance visits also provide additional opportunities to ensure that standards are being properly applied.

With regard to changing ratios -- yes, we would change the 75/25 ratio if we felt that our construction needs were greater than our program needs.

Question: Tyndall AFB is requesting $660,000 to improve its Marina, yet there is also a yacht club at Tyndall with its own building and slips. In fact, the base was using $200,000 in O&M funds to repair the pilings and slips around the yacht club.

As noted in your testimony, there are similar duplicate operations at a number of other bases.

Why is the Air Force allowing duplicate operations of these activities? Shouldn't we limit activities like marinas and yacht clubs to joint use facilities?

Answer: There is a definite difference in the types of marinas found on Air Force installations. The majority, which are established as military general welfare and recreations activities, are open to all eligible patrons and offer a wide variety of services (boat rentals, equipment rentals, instructional classes, boat storage, etc.). The four membership "yacht clubs" are oriented more towards individual boat owners who want to enjoy the camaraderie and fellowship of a "club" where they can share their interests with others similarly involved. Each type of operation has its following and we do not want to degrade local programs by eliminating the field's ability to satisfy these followings.

Question: Several years ago the Panel requested that the Air Force reduce the amount of appropriated funds being used on golf courses. Your testimony mentions the Air Force's new policy which is different from the other services.

What is the rationale for a separate Air Force policy?

Can you tell us what effect that policy has had on reducing appropriated funds for golf courses?

Answer: The Air Force had serious concerns about the early guidance by OSD relating to appropriated fund support for golf course grounds maintenance due to the impact it would have had on the overall Air Force MWR program. The Air Force took the lead and worked with the other services to develop a more reasonable policy, yet one which would result in reduced appropriated fund expenditures. This policy was provided to OSD and implemented by the Air Force in January 1985. From incomplete FY 1985 data, we have seen a larger contribution from nonappropriated funds and a reduction in appropriated fund support for golf course grounds maintenance.

Question: The Air Force club system is facing a questionable future. Net income in FY 1984 decreased to about $7 million from its 1982 high point of $16 million.

In addition, the number of clubs operating with deficits is increasing. There were 72 clubs (27%) operating with a deficit in FY 1984, up from 58 (21%) in FY 1983.

What do you see as the future for the club system? What initiatives have you undertaken to reverse this negative trend?

Answer: We do not agree that the Air Force club system is facing a "questionable future". The requirement for open messes in the Air Force for essential feeding and commanders' protocol functions has not and will not change, and their contribution to social, morale, and esprit de corps is essential. The system is currently going through a transition period caused in part by the reduction in bar sales because of alcohol deglamorization and the change in drinking age rules. On the plus side, there has been a significant increase in food sales. This positive trend is largely the result of increased emphasis on the quality of food preparation, service to the patrons, and family programs. We also have a number of other initiatives underway to improve the profitability and services of the open mess system. To name a few, we are maintaining a closer contact with the food and beverage industries to keep abreast of customer trends; our culinary upgrade program and tabletop enhancement program are aimed at improving the food, service and atmosphere offered; and our cost effectiveness team program visits marginal open messes to identify and implement programs and procedures that will contribute to a more efficient and cost effective operation. While our net income has declined over the past years, our membership has grown and we see a healthy future for our open mess system.

Question: As noted in your testimony, the Air Force is requesting several projects this year that, under DOD guidance, should be funded with appropriated dollars. These projects were withdrawn by DOD and never submitted for MILCON funding.

Does this mean the Air Force plans to use nonappropriated funds for these type projects in the future?

Answer: We will continue to program MWR facility requirements in accordance with published DOD funding guidance. In those instances where we have been denied appropriated fund support, even though authorized by DOD policy and the need for the facility exists, we will have no alternative but to use nonappropriated funds to meet the need. This will increase our existing backlog of facility construction requirements.

Question: In 1980, the GAO found that some MWR facilities were larger than needed, inadequately planned and/or did not have a documented need. The GAO's findings pertained to all the services.

What did the Air Force do to improve its construction program as a result of the GAO report?

Answer: The referenced GAO report stated on page 44, "The Air Force has developed the most sophisticated system for setting priorities." Despite this complimentary remark, the Air Force continued to enhance and update its review process. With major command involvement, we further enhanced the priority system to take into consideration the condition and size of the existing facility; the importance of the program the facility supports as expressed by active duty personnel; and increased emphasis upon overseas and/or isolated locations. These refinements take advantage of the MWR Leisure Time Survey responses of our active duty personnel, thereby granting them a direct input into the priority system. To further enhance our system, we established an MWR facilities review panel. Each major command is required to brief this panel on their projects and priorities. The panel then reviews, validates, and provides recommendations on the size, justification, cost, and priority of the annual Air Force MWR NAF construction program.

Question: Your testimony states that reductions in appropriated funds to bowling and golf activities would adversely impact other MWR activities. This assumes that fee structures are presently adequate.

It seems that profit generators like bowling and golf should be self-sufficient in most cases and not need appropriated fund support. These profit generators don't pay for their land, don't pay taxes, can buy supplies and liquor at cost and yet they need additional funds to make a "profit". The Air Force used $16 million to support bowling centers and $20 million for golf. By allowing appropriated fund support we seem to be encouraging subsidized fee structures.

What is the rational for allowing the use of appropriated funds in resale operations like bowling and golf?

Answer: First, bowling and golf activities are not resale operations like AAFES. Instead of providing goods or services for sale, they are recreation activities whose purpose is the physical and mental well-being of Air Force personnel, particularly our enlisted force. The major appropriated funds (APF) expenditures for golf and bowling programs are for facility maintenance and repair (49 percent) and management (16 percent). These expenses are directly associated with maintenance of government-owned facilities, management supervision of significant MWR programs and government-owned facilities and equipment, and safeguarding funds. All are authorized by DOD funding policy.

From purely a NAF position, these two activities do generate profits. These profits are used to support other MWR programs such as physical fitness, libraries, child care, recreation centers, and the like. The APF support is not a "direct taxpayers' subsidy", but direct support of the recreational value of these activities as well as a means of protecting the taxpayers' interests and property and providing our members with activities which enhance their physical fitness and morale.

Question: Your testimony describes the facility acquisition process and how it begins with determining base requirements. The use of surveys, master plans, etc., sounds like a very comprehensive process.

During the panel's visits to Air Force bases, however, we find the real world is quite different than the process you describe. Survey results aren't being used, master plans are inadequate, etc.

How do you verify that bases are effectively implementing this process?

Answer: The shortcomings pointed out have been recognized. We recently published and distributed a training aid to assist our bases in their efforts. It provides detailed instructions on the development of long and short-range plans. It specifically addresses plan contents, including personnel program needs, as determined by surveys; environmental factors; on-base and off-base resources; and manpower, funding and facility resources. It also establishes a standard master plan format. Futher, we are developing a model plan which can be used as a guide by base-level personnel. Also, we will require review and approval of base plans by the major commands as a means of strengthening the process. Finally, we established an Air Force level facilities review panel to provide an additional review of all projects funded by the Air Force Welfare Board. Based on recent visits by our staff to bases throughout the world, we will continue to emphasize these all-important techniques in program and facility planning. This is also a subject for review by Air Force Inspector General personnel on their visits to bases.

Question: We visited one Air Force base in Mississippi that had spent about $100,000 to fix up two deep sea fishing boats. One boat could only seat six people and, at the rates they were charging, would lose money on every trip. Total losses for this small boat were estimated to be about $100,000 per year. When asked how the base planned to reduce the loss, part of their answer was to hire a captain with appropriated funds. We later found that the APF support for MWR activities at this base has more than doubled in the last two years.

Who is responsible for overseeing base operations to verify that appropriated funds are being correctly and wisely spent? What is the rationale for funding a deep sea fishing boat captain with appropriated funds?

Answer: The Keesler AFB Technical Training Center commander has the ultimate responsibility for ensuring that appropriated fund expenditures are within regulatory guidelines and that the expenditures are prudently made. The center commander exercises this responsibility through the base commander, comptrollers, and resource advisors. Morale, Welfare and Recreation (MWR) programs at this base were suffering from a lack of adequate appropriated fund support; the commander raised that support and the program is now improving. MWR programs at all Air Force bases are tailored to meet the needs of assigned active duty personnel. Natural resources in the surrounding area often provided the most popular leisure time opportunities sought by our personnel. Keesler AFB initiated a deep-sea fishing program to provide this opportunity. In an effort to provide such a program which is affordable, especially to the young low ranking airmen who make up the vast majority of the population, the commander, as authorized, used appropriated seasonal overhire funds to hire a boat captain. This person manages the program and ensures a safe recreational activity. We disagree that annual operating costs for this program will approach anything like $100,000. The two boats are only parts of many recreational activities supported by the base military welfare fund. All of the activities supported by this fund, when taken together, are operated to at least "break even" each year. The deep-sea fishing program is new and we have learned that our first efforts at pricing for trips was too low and, as a matter of fact, it could cost the welfare fund up to $41,000 in fiscal year 1986 if we were to maintain fiscal year 1985 trip pricing and provide absolutely no appropriated fund support. It is our intention to continue this highly desirable recreation activity in fiscal year 1986, but at a higher price per trip. In order to assure safety, an affordable program for our personnel, and assure the welfare fund is not operated at a loss, we intend to provide warranted appropriated fund support.

Question: Your testimony notes that "profits" generated by golf courses are used to assist other recreation activities. In reviewing operations at several bases the Panel has found these "profits" to merely be a transfer of appropriated dollars through the NAF activity to the other recreation activities.

Revenue generating activities like bowling centers and golf courses are generating "profits" to a great extent because their operations are subsidized by appropriated funds. Is this correct?

Under current conditions, base managers must analyze appropriated and nonappropriated budgets to determine an activity's profitability.

From a management perspective does this make good business sense? Wouldn't it be easier to operate these activities as businesses and take the subsidized funds and give them to the non-revenue producing activities?

Answer: Revenue generating activities such as bowling centers and golf courses are not subsidized by appropriated funds. The major appropriated fund expenditures for golf and bowling programs are for facility maintenance (49 percent) and management (16 percent). These expenses are directly associated with maintenance of government-owned facilities, management supervision of significant MWR programs and government-owned facilities and equipment, and safeguarding funds. All are authorized by DOD funding policy. Overall, 85 percent of appropriated fund support to our MWR activities is in the form of fixed costs (facility maintenance and supervision). Only 15 percent is commander allocated and controllable. The appropriated funding, therefore, is tied to the particular program, facilities, and other assets involved and cannot readily be diverted to other activities.

Question: Your testimony mentions that bases will fund about $31 million in local projects during FY 1986. This includes 35 recreation projects, 32 club projects, 7 packages stores and 1 small TLF. This is more than your major (over $500,000) program.

Who reviews these projects to ensure they are the most needed and properly sized?

Answer: Generally, these projects (under $500,000) are the ones selected by the major commands for funding. The projects are originated by a base program manager. They are then reviewed by the base civil engineering staff, the base facilities board, and the base commander. They are then reviewed by the major command civil engineer and morale, welfare and recreation staffs. The projects are then presented, prioritized, and approved by the major command NAF council and commander. The major commands follow the same basic guidelines as used by the Air Force Welfare Board.

Question: The Air Force is requesting $4.1 million for a bowling center in Misawa, Japan.

Is this project eligible for the Japanese Facilities Improvement Program? If not, why not?

Answer: This project is no longer eligible for the Japanese Facilities Improvement Program (JFIP). Efforts were made by the Air Force to include this project in the JFIP; however, the project could not be given a priority high enough to favorably compete for the limited resources provided by the Government of Japan. Beginning with the fiscal year 1987 JFIP, CINCPAC determined revenue producing projects normally funded with nonappropriated funds are to be excluded from consideration in the JFIP. If we can not obtain approval to build this facility with nonappropriated funds, we do not have any programming avenue available to obtain an adequate bowling center for our personnel at Misawa AB.

Question: The staff recently had several disturbing visits to the Air Force bases. We found the MWR programs at two locations in shambles. The former base commanders had let the facilities and programs deteriorate.

At one base visited, the major command had to pump several million dollars into the MWR program because they faced bankruptcy and couldn't pay their bills.

The major command was aware of the problems at this base for several years but didn't stop the base commander from wrecking the MWR program.

Who is responsible for monitoring the MWR programs and funds at both the base and major command levels?

Answer: We disagree with the assertion that any of our base-level programs are in shambles, faced with bankruptcy, and can't pay their bills. As with any large worldwide operation, there are occasions where problems do occur. At installation level, the commander, through his staff and base NAF council, is charged with the operation and oversight of the MWR program. The commander, his NAF custodian, and the base NAF council administers base NAFs. At the major command, the commander and his staff are responsible for monitoring programs and funds within the command.

Question: A major problem occurs after we build these facilities -- we don't have qualified managers to run them!

Please explain what you are doing to improve your management personnel.

Answer: This response will be provided in two parts: the first addressed to MWR facilities -- the second to commissaries.

1. The Air Force does not have a major problem in finding qualified managers to run our MWR programs. A quality work force has long been a goal of ours. To this end, we have addressed our efforts toward recruiting quality personnel and conducting an extensive training program. In the area of recruiting, we recently entered into an agreement with the Army to jointly use a single recruiting office to fill our civilian managerial positions. This office provides our bases a single point of contact for obtaining managerial candidates. We also established an intern training program to bring college-trained managers into our work force. In the training area, we operate four separate technical training courses which train 340 students a year. Finally, to ensure our managers stay abreast of the latest developments in their areas, we conduct 39 regional workshop sessions per year. Our goal is to recruit quality personnel and provide the training necessary to make them effective managers.

2. In the commissary area, we have a very active commissary career enhancement program. All qualified commissary managers are

registered and ranked in this centrally managed program and vacancies are filled competitively. This program provides a strong incentive for management improvement.

We have a very extensive training program that provides training for managers at all levels. Training courses include functional training classes and workshops for commissary officers, store managers and department managers; formal middle management training conducted by Air Training Command; formal in-residence training at Cornell University and correspondence courses from the same institution; and in-store functional and motivational training for commissary employees using sight-on-sound and video equipment.

We have a comprehensive intern training program; we recruit 20 young people annually and put them through a strenuous two-year program. Potential applicants, the majority of whom are college graduates, are solicited from within and without the Federal Service. The intern program has been very successful in recruiting employees. Graduates from the earlier programs are already placed and performing successfully in key management positions.

Question: An OSD instruction requires inventorying and prioritizing of MWR activities and developing long-range plans. We have seen many installations that either did not have a five-year plan or it was just a very elementary construction schedule. We have not found many plans that determined MWR needs, developed a program to meet those needs, and then determined what facilities are needed to house the programs.

For the most part, the regulations seem adequate but the implementation at the base level seems woefully inadequate. How can you bridge the gap between the regulations and their implementation? How do you follow-up to verify installations are properly implementing your regulations?

Answer: We are also concerned about planning and are putting more emphasis on this area. We recently published and distributed a training aid to assist our bases in their efforts. It provides detailed instructions on the development of long and short-range plans. It specifically addresses plan contents including personnel program needs as determined by surveys; environmental factors; on-base and off-base resources; and manpower, funding and facility resources. It also establishes a standard master plan format. Further, we are developing a model plan which can be used as a guide by base-level personnel. Finally, we will require review and approval of base plans by the commands as a means of strengthening the process.

Question: You work with the DOD construction criteria quite closely. What is your opinion as to its usefulness in sizing facilities?

Do you have any ideas for improving it?

Answer: This answer is in three parts because of the sizing requirements peculiar to three distinct functional areas:

1. In the MWR program, the DOD facility sizing criteria is used as a guide to develop facility sizing criteria for Air Force facilities. The Air Force's sizing criteria for MWR generally follows the DOD criteria. In some instances, however, the Air Force criteria is more restrictive (e.g., for arts and crafts and auto skill development centers). We believe the DOD criteria provides a useful guide. It provides a maximum limit for sizing our facilities. We do not believe it is feasible for DOD to develop specific criteria for each facility applicable to all services on a worldwide basis for the MWR program.

2. In the commissary area, we have developed and implemented a computer sizing model which overcame all of the deficiencies of the

previous method and provides a rational method for sizing commissary stores. The computer sizing model uses forecasted sales volume to develop space needs for specific store areas. Individual store facility needs can be calculated on a case-by-case basis. Sizing under the new criteria is a dynamic process which can easily be adapted to changes in base population as well as technological advances in merchandising. As the parameters for these factors change to meet modern merchandising needs, then so does the space required. The static table used in the DOD criteria was not sufficent. As a result of DOD's review of our method, the old criteria has been recognized as obsolete and each service is now authorized to size stores in accordance with the requirements of individual sites. We have subsequently developed an Air Force regulation formalizing our space criteria. Changes in products, merchandising, and customer demand require that we keep the criteria current. Changes will gradually evolve over the years.

3. In the Army and Air Force Exchange Service (AAFES) program, DOD criteria is extremely useful. Most AAFES facilities are sized within the DOD criteria. The space criteria considers the customer mix such as single versus married sponsors and family members of military personnel assigned to that installation. The criteria applies an environmental adjustment factor that considers the availability of on-installation housing, availability of comparable commercial activities, and mission of the installation. This tentative size is validated by a comprehensive space analysis which considers such things as sales potential, productivity of space, and past experiences with main stores which are considered to be adequately sized and have actual sales close to the projected sales at the installation in question. The size decision is based on this validation process. AAFES is currently testing a computerized program for facility sizing based on the parameters of the DOD construction criteria. When fully implemented, this program will enable us to determine and validate correct store size by a computer-generated comprehensive space analysis.

Question: The Panel's NAF construction report to Dr. Korb last year noted that we found:

-- inaccurate data on the 1391's
-- nonexistent or superficial project justifications, and
-- poor long-range planning.

Our earlier report on 1984 projects noted problems with developing service-wide priorities and excessive construction times.

We seem to be finding these same problems this year. What have you done to correct these problems?

Answer: Actions have been taken to preclude these and other potential problems. We have strengthened our acquisition system to stress planning and accuracy; modified our prioritization system to place more emphasis on the existing facility condition, functionality, and program needs; placed more emphasis on the justification contained in the DD Forms 1391; and established an MWR facilities review panel which must be briefed by each major command on their projects. We recently published and distributed a training aid to assist our bases in developing long- and short-range plans. It specifically addresses plan content including program needs as determined by surveys; environmental factors; on-base and off-base resources; and manpower, funding and facility resources. Further, we are developing a model plan which can be used as a guide by base-level personnel. These actions, plus more detailed reviews at the major command level, should result in major improvements in our annual NAF Report to Congress.

Question: The Air Force is requesting $1.4 million for an arts and crafts center at Andersen AFB, Guam. When the panel asked for projected usage data we were told it was "difficult to define".

What programs will be housed in the facility and what is the expected usage? In short, without defining programs, how did the Air Force size this facility?

Provide the local needs survey that determined what programs the personnel at Andersen wanted. How was this survey used to determine the size of the facility?

Answer: The Air Force has proposed the construction of a 7,345 SF arts and crafts facility at Andersen AFB, Guam. There has never been a single facility constructed and dedicated solely for the support of an arts and crafts program and part of what was used in the past was damaged during a typhoon several years ago. Consequently, a full-scale program has never been possible. The existing program is limited to a small wood hobby shop housed in a substandard building scheduled for demolition and a small arts and crafts program operated out of the bowling center which needs the space for storage. The new facility will allow the base to operate, for the first time, a full-scale program to include a sales store, gallery and exhibit space. It will also accommodate pottery, ceramics, photography, fine arts, jewelry, and lapidary programs and an expanded wood and industrial arts program. Past utilization data is not representative of the potential use due to the base's inability to operate a full-scale program due to the inadequacy of existing facilities. The proposed project was sized based on the need to provide a full-scale arts and crafts program to service the base population (over 4,100 active duty personnel, 2,700 dependents, and over 600 US civilians) and the fact that there are no similar activities available off-base. The 1984 MWR Leisure Time Survey indicated that active duty personnel stationed on Andersen rated the importance of the arts and crafts program higher than both the SAC and Air Force averages. However, the program satisfaction level was lower in the areas of ceramics/pottery and industrial arts than the SAC and the Air Force averages.

Question: Many of these resale projects being proposed could impact on commercial off-base businesses. What analyses do your regulations require to determine this impact? Is this impact factored into the decision making process?

Answer: Each Air Force base MWR master plan must contain a section covering comparable off-base facilities. This information is an essential factor in the commander's decision regarding facility requirements. The lack of comparable off-base facilities almost always results in a facility need; however, it does not necessarily follow that the availability of comparable off-base facilities eliminates the need for a facility. Unlike their commercial counterparts, Air Force bowling and golf facilities are not established solely to make a "profit". They are recreation facilities which are also intended to meet the needs of Air Force personnel at a reasonable cost. This is particularly important for our younger, lower paid personnel. While establishment of these facilities may have an impact on commercial off-base businesses, commanders may still determine that they are needed because of the lack of actual availability of the off-base facilities (distance, lack of transportation, excessive cost, saturation, etc.) or the need for additional NAF revenue generators on the base.

Question: General Chavarrie's predecessor, Lt. Gen. Tice, had a consultant review MWR construction. The 1983 study found:

-- facilities were too large and too abundant;

-- facilities were being built by personnel with questionable planning skills;

-- fees and charges were much lower than those in the civilian sector; and

-- guidance on fees and charges was unclear and conflicting.

During the last few years the Panel has found that these problems continue to exist. What have you done to get these problems corrected?

Answer: We are constantly reviewing our construction programs to ensure that the facilities are properly sized and planned correctly. We recently published and distributed a training aid to assist our bases in their efforts. It provides detailed instructions on the development of long- and short-range plans. It specifically addresses plan contents including personnel program needs as determined by surveys; environmental factors; on-base and off-base resources; and manpower, funding and facility resources. It also establishes a standard master plan format. Further, we are developing a model plan which can be used as a guide by base-level personnel. Also, we will require review and approval of base plans by the commands as a means of strengthening the process. As to fees and charges, they are the local commander's responsibility. This is based on the philosophy that the commander is in the best position to identify available resources (on- and off- base), environmental conditions that would affect pricing, and the cost of doing business. The local commander is the best individual to make decisions that would impact on the morale of the base community. We have provided the commander with guides for setting fees and charges and we intend to re-emphasize our basic philosophy of providing our personnel with the same range of savings as those provided by the exchange and commissaries.

Question: What is being done to standardize designs for commissaries and MWR facilities?

To what extent do we have to redesign these facilities for each new project?

Answer: Design guides for ten major MWR facility-types have been published. These facility types are arts and crafts centers, youth centers, gymnasiums, swimming pools, auto crafts centers, bowling centers, multipurpose recreation facilities, open messes, general libraries, and child care centers. Copies of these design guides have been distributed to all command engineer and MWR offices. There are plans to develop design guides for 13 additional facility types. These design guides standardize the functional requirements and considerations for each type facility, thus assuring that each facility will function properly and meet the users' needs. Each project must then be individually fine-tuned for its particular site, climate, base population, and individual base requirements. Through the use of these design guides, there is a strong thread of commonality running through each new project. There are now fewer projects requiring redesign.

Commissary designs are standardized to the maximum extent. This is assisted by the similarity of functions and typical product flows in each of our stores. We have standardized the merchandising layout for the convenience of our patrons as well as increased operational efficiency. This standard layout, or "definitive drawing" is adjusted for a new sizing based on the individual store requirements, but arrangement and configuration remain the same and AFCOMS standard design criteria is always used. Generally, the following items are designed specifically for each location: foundation; parking lot, service area and landscaping; utility support and site drainage; exterior architectural treatment to match local decor and finishes; and heating, ventilation, and air-conditioning systems to meet local requirements.

Question: A recent Air Force estimate of expected AAFES dividends showed a $30 million reduction from FY 1985 to 1989. Rather than receiving $238 million during this period, the forecast has been reduced to $209 million.

To what do you attribute the reduction? How do you plan to handle the reduction -- will you reduce construction or program allocations?

Answer: The Air Force has anticipated a decline in their AAFES dividends based on the current AAFES sales and earnings trend. AAFES sales and earnings have been disappointing during the current fiscal year due to the strong dollar overseas and large promotional markdowns.

Annually, AAFES develops a strategic financial plan for a five-year period. The purpose of the plan is early identification of future financial situations that may require current action. This action may be to prevent potential problems from occurring or to exploit potential opportunities. As with any long range plan, the accuracy of projections declines in direct proportions to the distance into the future of the planning periods. This fact must be recognized when using outyears projected data. For this reason, the strategic plan is updated annually to recognize environmental and organizational trends.

AAFES is in the process of updating the 1985 strategic financial plan. The 1986 plan will be presented to the AAFES Board of Directors in December 1985. The approval of credit sales in AAFES certainly will improve the earnings outlook compared to recent operating results. However, until we finalize the 1986 strategic financial plan, the earnings for the period 1986 through 1990 cannot be accurately estimated.

We have included the new AAFES projection for fiscal years 1985-1989 in our financial plan. We do not intend to reduce our allocations to the major commands and bases. If current AAFES projections are correct, the reduced availability of funds will result in deferral of construction projects we would otherwise have funded sooner.

Mr. Daniel. The panel is adjourned, subject to the call of the Chair.

[Whereupon, at 3:35 p.m., the panel adjourned, subject to the call of the Chair.]

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FISCAL YEAR 1986 NONAPPROPRIATED FUND CONSTRUCTION PROGRAMS

House of Representatives, Committee on Armed Services, Morale, Welfare and Recreation Panel of the Readiness Subcommittee,
Washington, DC, Tuesday, October 22, 1985.

The panel met, pursuant to call, at 10 a.m., in room 2212, Rayburn House Office Building, Hon. Dan Daniel (chairman of the panel) presiding.

Mr. Nichols [presiding]. The panel will come to order.

Today the MWR panel will complete its series of hearings on nonappropriated fund construction.

Our first witness this morning is Rear Adm. David Harlow, Deputy Chief of Naval Personnel.

Admiral, it's good to see you again. We welcome you to the panel and you may proceed as you desire, sir.

STATEMENT OF REAR ADM. DAVID L. HARLOW, U.S. NAVY, DEPUTY CHIEF OF NAVAL PERSONNEL

Admiral **Harlow**. Mr. Chairman, I am most pleased to represent the Navy this morning. I have submitted a statement for the record and will be brief in my remarks this morning.

Mr. **Nichols**. Without objection, your statement will be included in the proceedings of this committee.

Admiral **Harlow**. Morale, welfare and recreation is a critical factor in our retention and readiness posture. MWR programs are the prime on-base focus in our effort to provide quality of life for our Navy community.

We fought drug abuse and have seen a dramatic drop in this problem in the Navy in the past 2 years.

We have launched a strong drive encouraging the responsible use of alcohol.

Both of these efforts are dependent on providing alternatives for quality lifestyles.

We count on our morale, welfare and recreation programs to do this, and we feel we are succeeding.

We must address family needs. A sailor with peace of mind in regards to family is a more effective sailor. Effective sailors equate to improved readiness. Morale, welfare and recreation is a critical contributor to meeting our family needs.

But most of our morale, welfare and recreation programs are facility-dependent, and I am pleased that you are reviewing the morale, welfare and recreation facility situation.

The Navy shares this panel's interest in effective facility construction. We have in place a generating, prioritizing, and approval system that involves the chain of command and ensures priority attention to our active duty members.

Our driving logic is one Navy. We are in agreement with this panel's concern that we provide for the needs of our sailors overseas and in remote places. At the same time, we in the Navy realize we have 84,000 temporary single parents who remain behind while our sailors are at sea each day.

I am pleased that the so-called catch-22 funding dilemma for construction at new bases has been addressed during these hearings. Navy echoes the concerns expressed by the chairman, by members of the panel, and by representatives of OSD and our sister services.

Navy endorses the dedication of appropriated funds at all new bases, at bases with expanded or changed missions, at overseas locations, and for all nonprofit generating facilities.

We in Navy are experiencing changes in our club operations as are the other services and society in general. Our clubs have traditionally provided for camaraderie and morale building. The very nature of our service requires frequent and long separations. Our personnel will continue to need facilities in which to socialize and relax with their peers. We are committed to this need. We are proactive. We are selling more food and less alcohol. We are changing our food marketing strategies to complement fast food chains.

Another initiative we wish to expand is providing more and better entertainment. I have asked this panel's approval to use package store profits in this regard.

As I stated in the beginning, good morale, welfare and recreation programs require good facilities. Programming must drive facility planning. In order to program, we must know what our people need, where they need it, when they need it, and how much is the total cost, both in nonappropriated and appropriated dollars to provide the need.

We have developed a system within Navy that we call Smart Compass. We are confident this instrument will improve Navy's ability to provide for the needs of our own and help us to continue in the constructive manner this panel desires.

This completes my statement and I will be happy to answer any questions.

PREPARED STATEMENT OF REAR ADM. DAVID L. HARLOW

Mr. Chairman: I am RADM David L. Harlow, Deputy Chief of Naval Personnel. I am pleased to address today the Navy's overall Morale, Welfare and Recreation (MWR) Facilities Program. I appreciate the opportunity to answer your questions and present a brief overview of these operations with primary emphasis on the facility construction program.

MWR programs in today's Navy provide the prime on-base source of off duty leisure time activity and quality resale items, lodging and services for Navy personnel and their families. These programs make significant contributions to military readiness by promoting and sustaining the mental and physical quality of life our sailors deserve. This latter aspect is especially important today as vigorous physical fitness and recreational programs are designed as tangible alternative to boredom and stress which lead to drug and alcohol abuse. Meeting family needs strengthens the peace of mind of our deployed sailors and improves their contribution to the Nation's readiness. We have embarked on a youth recreation fitness program and will continue our efforts for our entire Navy family afloat and ashore.

By its very nature, successful MWR programming is "facility dependent." Because of this and the profoundly positive influence adequate facilities have upon readiness and morale, we share your interest in the pro-active and efficient execution of our facility construction program.

We estimate the Navy's overall MWR facility backlog to be approximately 810 million dollars: 270 million for MILCON recreational facilities authorized under current Department of Defense (DoD) policy, 160 million for nonappropriated funded (NAF) recreational facilities, 207 million for NAF exchange facilities, 173 million for NAF commissary facilities. This total does not include the emergent requirements for the Surface Action Group Homeporting Program. All MWR facilities requirements in the Navy are identified, developed and programmed in accordance with the Navy's Shore Facility Planning System. This system is a comprehensive, engineering approach for determining the capability of existing facilities to satisfy requiements and for validating new construction project proposals.

Our Shore Facility Planning System emphasizes the identification of deficiences at the lowest command level, Projects are fully documented with a justification provided by the installation commmander which is scrutinized by the entire chain-of-command. This is a shared data base for project evaluations used by each echelon of command. The primary factors used to identify priorities include population served, project validation, mission impact, overseas and remote location considerations, the seriousness of deficiency, safety/sanitation, available alternatives and cost. All facility programming is made with the active duty military requirements given highest priority. Of prime concern to Navy is the support of the fleet sailor, whether in CONUS or oveseas. Recreational outlets must be provided for shipboard personnel both at sea and during in-port periods. However, in support of the Navy goal to improve "quality of life", emphasis is also being given to facilities that render a service to families and dependents of military personnel.

NAF facility requirements of our recreation and club programs which are identified as the highest priority needs of each Echelon II Command are submitted to our Recreational Services Facility Review Board. The composition of this Board includes the responsible representatives of all Echelon II Commands and the Master Chief Petty Officer of the Navy. They jointly participate in reviewing projects and recommend priorities by a voting process consistent with available program resources. As a matter of policy, the NAF resources currently being dedicated to these requirements are intended to draw down the backlog faster than it grows.

A similar process is followed for NAF Exchange and Commissary projects with the review being conducted by the Navy's MWR Policy Board which has essentially the same representation as the Recreational Services Facility Review Board. Major factors considered in Exchange project developments include the seriousness of the deficiency, the population supported, readiness and mission support, operational requirements, and return on investment. Although current budgeting allows for programming about 17 million annually for major construction requirements, an estimated annual investment of 21 million is necessary to allow for the orderly replacement of 830 million dollars of existing Navy Exchange facility assets over a forty year cycle. Because of this 4 million annual shortfall as well as emerging new projects, the current project backlog is expected to grow rather than diminish.

Factors considered for the development of Commissary Store projects are similar to those for Exchanges. Although surcharge funds now generate almost 9 million dollars annually which may be programmed for major construction, the current Five Year Capital Improvement Plan reflects obligation needs at almost twice this rate. Unobligated Trust Revolving Funds totaling 13 million will be drawn down and the construction program accelerated over the next five years to take advantage of the accelerated obligation authority on a cash flow basis granted by Congress. After the one time benefits of the accelerated obligation authority have been realized, the programmed replacement of existing Navy commissary facilities over a forty year cycle will require an annual investment of 9 million. Since this figure approximates the surcharge funds available anually, we anticipate the project backlog of 78 million dollars at the end of five years will not be significantly reduced and any unforeseen new requirements will increase the backlog. There have been no MILCON funds available for commissary requirements since FY-74.

Navy Lodge facility requirements are accommodated entirely from revenue generated within the Navy Lodge System. Project construction criteria considers the seriousness of the deficiency, fleet concentration and population supported, availability of commerical lodging facilities, waiting time for housing, and, of course, the size of investment. Priorities for selection of projects relate first to replacement of substandard facilities, second, areas of high demand with no facilities, and third, expansion based on high demand and partial replacements. Over the next three years the

Lodge construction program is being accelerated based on the program of debt financing. Navy Lodge financing requirements will be met by using funds borrowed from the Navy Exchange Program supplemented, when neceessary, by a series of short term loan commitments and lines of credit from various other sources in accordance with DoD policy. This accelerated construction plan will allow us to extend Lodge benefits to thousands of Naval personnel several years sooner than would have been possible without the use of debt financing. This initiative will clearly enhance the quality of life for many Navy families.

The Navy, however, perceives several conflicts as to Congressional direction regarding the application of MILCON and NAF sources in meeting current MWR facility deficiencies. The current DoD funding policy for community facilities (DOD Directive 1015.6) prescribes a single and proper source of funding for each specific type facility. This policy resolved critical funding questions while providing recognition for appropriated and nonappropriated funding responsibilities. These responsibilities remain valid and fully supportable in application to today's military environment.

Since 1980, MILCON Subcommittee deliberations and this distinguished MWR Panel have introduced conflicting funding positions and project qualification criteria that now hold hostage the potential MILCON funding of many deficiencies (such as pools, theaters, child care centers, overseas facilities, and emergency requirements including base expansions, new bases, reactivations, and disaster replacements). We now find ourselves clearly in a "catch 22" situation. For example, we understand the MILCON Subcommittee indicate revenues generating projects at new bases should be funded with NAF dollars. This Panel has gone on record that new base facilities should be built with appropriated funds. DoD policy is in agreement with this Panel's direction. The net effect of these directions is to confuse and possibly increase the NAF burden for facility support being borne by our sailors and their families. This represents an unrealistic appraisal of the economic means of our service members and their limited ability to generate additional nonappropriated funds.

We are also unofficially hearing from Congressional sources that all revenue generating projects regardless of location should be built with nonappropriated funds. We must take issue with this. A more equitable criteria would be to require NAF for constructing only those facilities in CONUS with a demonstrated profit generating capability except in cases of new bases, reactivations, expansions, and replacements due to Acts of God.

Without the restoration of MILCON support as defined in the current DOD funding policy, important facility needs will simply not be met. At this time only one FY-86 MWR MILCON project for a child care center at Guam will be funded for Navy. We are fighting to save two additional physical fitness projects. Basic facility responsibilities are not being addressed through the MILCON Program and nonappropriated funds can not be expected to cover this obligation.

The 4 million dollars annual shortfall of NAF funding for Exchange requirements previously identified highlight the critical need for MILCON funding to finance facility requirements for new bases, for base reactivation or significant expansion of existing bases.

My botton line is not new. We agree with this Panel's and DOD's funding policy. We believe appropriated funds should be provided for new base construction, overseas construction (which is far more costly and vulnerable to Status of Forces Agreements), facilities destroyed by "Acts of God" and for those non-profit generating facilities wherever construction is justified.

A separate but important financial issue relates to our messes in the Navy. Our traditional product sales mix changed dramatically in recent years—from a preponderance of bar sales 6 years ago to food and other sales today. Our recent emphasis is to offer creative alternatives, particularly to those sailors who are under 21 years of age because of the initiatives to raise the drinking age to 21. We see most of our managers coming to grips with this challenge with initiatives such as acquiring quality entertainment, special events/promotions, amusement machines and the upgrading of food service preparation and presentation. Simply put, we are committed to maintain the 200 plus year Navy tradition of camaraderi which thrives in a well run Mess/Club operation. To get the most for our money we are emphasizing multi-use facilities both in recreation and messes. We are selectively building consolidated messes vice geographically separate and distinct club facilities for each rank structure. We do want to maintain separate interior social facilities. However, we must continue to also provide social facilities for our younger sailors whether they are served beer or not. Quality entertainment can be a key element in our club system programming.

Permit me to address this quality entertainment point. Much has changed since the 1979 hearings held by this Panel which focused on the use of package store profits, particularly in messes. In view of the alcohol sales decline and other threats to the fiscal well being of our club system, the Navy believes prudent consideration should be given to changing the Panel's position precluding the use of package store profits by clubs for such things as quality entertainment. The use of package store profits for entertainment would provide a finite, fiscal enhancement for our clubs to meet their evolving status as a focal point for social camaraderie in an acceptable environment.

I have mentioned two areas in which we need your help: funding policy consistency and what are we doing to buttress our support of quality construction program needs, and a review of package store profits for quality entertainment. We share and have shared this Panel's concern that the needs of our entire Navy family drive the priorities for construction of MWR facilities. To this end we have developed a needs survey and other assessment tools that will enable us to better measure the effectiveness of our recreation and mess programs and help determine the ever-changing needs of our patrons. We call this project "Smart Compass." This program enables local commands to measure leisure needs, define off base community resources, monitor program performance and apply true cost financial analysis. The results of our evaluation effort will form the basis for our long-term plans for Navy clubs and recreation facilities.

Implementation of the program began in August 1985. One third of all shore installations are scheduled to conduct the leisure needs survey each year. Commands with major facility projects under review have been included in this year's survey sample. By using uniform instruments and procedures locally, the Navy will be able to aggregate data centrally to improve the quality and cost-effectiveness of our programs and to support MILCON and NAF facility budget requirements.

In summary, we need clear policy from the Congress as to which projects can be funded with appropriated funds and which must be built with sailors' dollars. As I stated, Navy believes the funding policy of this Panel and DOD is fair and should be consistently applied.

We ask the panel to review the use of package store profits for entertainment in clubs. We in Navy are taking measures to improve our program delivery and validate needed projects. I have referred to our project Smart Compass which will indicate what projects we should deliver, to whom, where, when and at what cost. We are committed to continuing to provide our people the means for social camaraderie and the best possible quality of life. We expect to realize continued readiness and retention with this necessary attention to morale needs.

Mr. NICHOLS. Thank you, Admiral.

Let me begin by asking you about this facility in Mayport, FL. You are asking us to review the siting of a commissary and an exchange project in Mayport. That particular project, as I understand it, is to be located off base at Mayport. This appears to contradict the panel's guidance given in last year's commissary hearings that these facilities not be located off-base.

Would you explain to the committee this project and the rationale associated with locating it off base?

Admiral HARLOW. Sure.

Mr. NICHOLS. Who owns the land?

Admiral HARLOW. The Mayport complex is limited, as far as siting space which is available, and as I am sure you are aware, the Mayport Navy area is growing as fast as any other Navy installation on the east coast. We are basing all of our frigate type ships down there. We have an increased number of helicopters going in there in support of the increasing fleet operations to be staged from Mayport.

Mr. NICHOLS. Excuse me, if I might interrupt. Did I understand you to say that you are limited on space in Mayport? You don't have land at the Mayport facility for this particular commissary?

Admiral HARLOW. On the station, that's correct.

We have, just off the station, a family housing area, which is where the siting for the commissary is to be located, which is very close to the station but just off the station, not inside the confines of the station.

Mr. **Nichols**. Who owns this land and what would be the deeding of it to the U.S. Government?

Admiral **Harlow**. I will have to provide the answer to that question for the record because I don't have the information immediately available to me.

Mr. **Nichols**. You are not certain whether we are going to be given the land or whether we will lease it?

Admiral **Harlow**. I can't answer that question.

Mr. **Nichols**. Would you provide that for the record?

Admiral **Harlow**. Yes, sir, I will.

Mr. **Nichols**. I think the committee would be quite interested in that.

[The following information was received for the record:]

Siting of Navy Exchange/Commissary

A regional study commissioned by Navy Resale and Services Support Office and prepared by Southern Division, Naval Facility Engineering Command in 1983 identified and sited all major exchange and commissary requirements for the Naval installations in the Jacksonville region. Because of the expanded operational and logistical requirements in support of the assignment of five helicopter squadrons and nineteen frigates to Naval Station Mayport, most of the available land was needed for these activities and the required exchange and commissary facilities will not be located on the station proper. The site selected for these facilities is approximately 2 miles south of the station entrance in close proximity to the Ribault Bay Village Navy family housing area. This land will be acquired in exchange for other government land in the area which is not suitable for exchange and commissary facilities. The land will be deeded to the U.S. government on a fee simple basis. Details of this transaction can be found in section 817 of the Military Construction Authorization Act 1986 (H.R. 1409).

Mr. **Nichols**. If a facility is destroyed by an act of God—say a fire, hurricane, tornado, or something—the Navy is authorized to use appropriated funds to rebuild the facility. It has been the Navy's policy, however, to use NAF funds for reconstruction.

Why is that the case?

Admiral **Harlow**. I think that goes back to this catch-22 dilemma that we are faced with. We have come to realize the reluctance on the part of the Military Construction Committee to build these kinds of facilities with appropriated dollars. When the need is established for such a facility we will construct it with nonappropriated dollars although we would prefer to do it with appropriated funds.

Mr. **Nichols**. My next question refers to a $600,000 youth center that you want to build at a base in London. The base only has 83 housing units. The Navy had a bowling project deferred there last year. The facility has about 649 dependents that live all over the city of London, I am told. Now, there appears to be little evidence as to how many young people would come to the base to use this facility.

Now, $600,000 is a pretty fair chunk of money to be used outside the country for construction.

How did this small project in London get such high priority?

Admiral **Harlow**. That's at the Royal Air Force base in West Ruislip, which is about 17 miles west of the city of London. We have located there about 4,000 active duty people and dependents who would be using the facility.

Mr. Nichols. Excuse me. Where do these active duty people live? Do they live on base?

Admiral Harlow. Some of them live on base and some of them do live on the local economy, as you described. Almost all of them, however, work in London and travel out to the West Ruislip area.

Mr. Nichols. Can you give us a ballpark figure? How many actually live on base? If you don't have that, please supply it for the record.

Admiral Harlow. Yes, I will provide that.

[The following information was received for the record:]

West Ruislip Youth Center

The West Ruislip complex is the primary location for all morale, welfare and recreation community facilities provided Navy personnel assigned to the London area. Although there are only 82 Navy enlisted family housing units at Royal Air Force West Ruislip, over 4,900 military personnel and their dependents use these facilities. Of the Navy's total assigned active duty and dependent population, 70% or 2,540 reside in the West Ruislip area proper. Also, 2,377 Air Force personnel and their dependents reside in West Ruislip and would be authorized to use this facility.

Mr. Nichols. Mr. Whitehurst.

Mr. Whitehurst. Thank you, Mr. Chairman.

Admiral Harlow, the Navy derives millions of dollars from its slot machine operations throughout the world. What's the estimated profits this year, and how does the Navy distribute the profits? We would like to know what they can be best used for.

Admiral Harlow. This year, the slot machine profits should amount to $8 million. Six million dollars of that is retained at the local level overseas as another source of general program support of day-to-day operating costs, equipment replacement, and minor construction/repairs. The $6 million is turned right back into providing support for sailors and their families that have used the slot machines and produced the profits. The balance of $2 million comes back to our central fund in headquarters which is used for Navy-wide capital improvement and capital construction programs under the nonappropriated fund authority.

Mr. Whitehurst. The panel's initiative to build fast food facilities is going to generate a lot of money at the installation level. The panel would like to know if you have established any ground rules for how these moneys can be spent; if there should be any limit set so that these funds are used for construction or capital purchases, and not to subsidize operations; and also who is going to monitor the use of these moneys.

Admiral Harlow. The agreement and the control of the profits is done through our Navy resale organization, the people who run our exchanges. That's who executed the contract with the fast food chain. Those profits go back through the Navy exchange program's financial system and are distributed the same as other exchange profits. Some of them come back into recreation, some of them are retained by the exchange program for reinvestment such as for capital improvements.

Mr. Whitehurst. OK.

I remember when we put the first McDonald's in at Norfolk. There was some objection made by at least one source in the private sector. Do you have this experience elsewhere where you sell fast food?

Admiral **Harlow**. Yes; there has been fussing locally, generally about these things. We also had concern internally that it was going to cause us problems in our other food-providing facilities—our club systems, for example.

Mr. **Whitehurst**. What has been the result of that?

Admiral **Harlow**. Initially it appeared as if it was going to be devastating to our clubs. We had a dropoff in food sales generally as much as 50 to 60 percent where the McDonald's opened. However, the affected clubs have rebounded very well and now they are back up to about a 10-percent dropoff in food sales. Many are offsetting the reduced food sales with increases in other revenues.

The reason for the rebound is the initiative that our managers have had. They have come up with alternatives to the kinds of things provided by the fast foods. For example, McDonalds are not providing pizza and pasta, and those sorts of things. Our clubs are starting to get a lot of their customers back.

Mr. **Whitehurst**. What about the mess halls?

Admiral **Harlow**. Mess halls are still needed, and the mess halls are still feeding our troops.

Mr. **Whitehurst**. You have a project that's of particular interest to the panel—it's a health spa addition to the enlisted club at Little Creek, VA. It is a $450,000 construction project that includes a lap pool, racquet ball courts and a weight room. Could you explain to us the concept behind the project and what you hope to achieve with it?

Admiral **Harlow**. This came in conjunction with our initiatives to deglamourize the use of alcohol, promote the responsible use of alcohol, and improve physical fitness, health and well-being of all of the people in the Navy—uniformed as well as dependents, military and civilian.

We are pushing physical fitness. We felt that trying to produce a multiuse facility where people could take a shower, and then stop by to have something to eat before going to work or home was the idea.

It's a test and if it proves successful we would like to expand it through our system.

Mr. **Whitehurst**. You indicated it is a test and I presume that because it is a test it is not part of a pattern. OSD's testimony stated it was their policy not to build sports or recreational facilities onto clubs or open messes.

Did you get a waiver for this? Is this how you were able to do it?

Admiral **Harlow**. My folks did research and were unable to find a prohibition. If there is a prohibition we are unaware of it. Of course, if we are prohibited we will have to go and get a waiver.

We thought of the idea of bringing a multiuse facility together to give it a test and see if it made sense. There may be other people who might be interested in the same concept.

Mr. **Whitehurst**. This member of the panel is not objecting. I think it's a good idea and I hope it is a success. Full speed ahead with it.

Thank you. That's all, Mr. Chairman.

Mr. **Nichols**. Thank you, Mr. Whitehurst.

Admiral, back to the fast food outlets, I am sure you are aware of the fact that we have gotten a good bit of flap about fast food restaurants, per se, from people located outside the gate.

What do you see as the benefits for having fast food facilities, and can you tell us how the Navy selects particular locations?

Admiral **Harlow**. As you know, our sailors are young men and women, and they come right from society. They have established the desire and the need to use fast food. They eat fast food just like everybody else does out there. Our desire is to provide and improve quality of life, the best quality of life, for our men and women, and for their families. We listen to what they say. We take surveys. There were indications that this would be a winner, and it would be worthwhile doing it.

Our Navy resale organization surveyed what our folks wanted and then started negotiating with the various fast food chains to see which chains would give us the best deal as far as siting, building, return on profit, and the kinds of guarantees we could get. That's how the whole process evolved.

It is proving that it was a good choice because the profits are way up. The use of these facilities is very high, and it is proving to be a wise choice.

Mr. **Nichols**. You told Mr. Whitehurst that it hadn't particularly affected the mess halls.

Admiral **Harlow**. The mess halls, no. Our mess hall use is still necessary. The people who eat in the mess halls can put an awful lot of food away. I have seen hard working youngsters sit down and eat a full meal in the mess hall and go out and have two more hamburgers and a shake. It is amazing the amount of calories they can put away. Fast food facilities have not affected use of the mess halls. It did have an impact on our clubs initially.

Mr. **Nichols**. They are still cleaning their plates in the mess halls?

Admiral **Harlow**. Yes, sir, that's right.

Mr. **Nichols**. McDonald's and Burger King are building their outlets a lot faster than we are. These facilities it has been my observation, are being built in less than a year's time while it takes the Government several years to build commissaries and MWR facilities.

Have you analyzed how and why these commercial firms can be so responsive? Are there any lessons that we can learn?

Admiral **Harlow**. Those of us in the quality of life business and the people business are frustrated by the time it takes us to produce and build facilities. But we also realize that we are constrained by the regulations that we have to follow and the fact that we stay in the military construction system, which I think has proven to be a good system, albeit slow. We wish there were ways to speed things up.

I think the fact that we are going back to experienced A&E firms to get our design work done will shorten the time a little bit. I know that the commissary and exchange people attempt to have standardized design and standardized criteria to provide facilities, and that will help also.

The fast food chains, of course, use more of a cookie cutter approach. They have a fix. This is exactly what it is going to look like no matter where you go—and I think they can do that more readily than we can. We are dismayed by how long it takes and we would like to shorten it. We are working on it. I don't know if we are ever going to get lower than 3 or 4 years.

Mr. NICHOLS. Lay out to us a little bit how we go about designing commissaries or MWR facilities. Do we hire a private architect to do this work or do we do it in house.

Admiral HARLOW. We start out determining what the needs of the local area might be. We do surveys to determine the population in the local areas, demographics, and what facilities are available to handle those in the local community. Then we determine what the scope of an operation has to be. Then we hire a design organization to come in and meet those needs that we have established.

Mr. NICHOLS. But we hire a private architect to do this?

Admiral HARLOW. Yes, sir, we do.

Mr. NICHOLS. Are you familiar with how Burger King and McDonald's do it?

Admiral HARLOW. I am not, no, sir.

Mr. NICHOLS. Do they have inhouse designers?

Admiral HARLOW. I suspect that they do, but I don't know that.

Mr. NICHOLS. I have no further questions. Mr. Daniel, do you?

Mr. DANIEL. Yes, thank you, Mr. Chairman. I appreciate you taking over for me. I was inadvertently delayed.

Admiral Harlow, what part does the local commander have in the preparation, planning and execution of these construction projects on your bases?

Admiral HARLOW. He is the instigator. He is the primary source that establishes, based on his knowledge of the local area, what the need is, what needs his personnel have for a facility and for the service to be provided. He starts the project out. He is the man that pushes it into the chain of command and as best he can, supports it all the way up to final approval within Navy.

Mr. DANIEL. We have found in some instances where there has been a delay, or the project has been slowed down because of the local commander. Explain to us how that happens.

Admiral HARLOW. You mean a local commander might not agree with the project and thereby not submit it?

Mr. DANIEL. I guess the prime example is the situation we had over in Annapolis recently. Do you know what I am referring to?

Admiral HARLOW. Are you talking about the fast food chain?

Mr. DANIEL. Yes, sir. How did that happen?

Admiral HARLOW. My understanding is that when the project was initiated it was agreed that a fast food requirement existed. Possibly the survey hadn't been completed and all voices heard to determine the pros and cons of going into a facility such as that. As the project became known, more voices were heard. The local commander, of course, was wise to listen to those complaints--and revisited the issue. There's obviously a need for that kind of service. The question is how does he provide it without having half the people unhappy with it and the other half of the people thinking it's great. That's the local commander's dilemma, and that's how I think that issue came to a head.

Mr. **Daniel**. Let me ask you about congressional action. What do we do or not do here in the Congress that would affect the time that is required to build one of these facilities? What do we need to change in the Congress?

Admiral **Harlow**. I think if we could solve this catch-22 issue that we are all concerned with, it would be a big help to us.

Mr. **Daniel**. What, Admiral?

Admiral **Harlow**. This catch-22, so-called catch 22, issue that has been mentioned in all of these hearings. I think that would be a big step in the right direction for all of us. We would need to define how we are going to proceed: whether facilities will be built with appropriated dollars or nonappropriated dollars. I think that is the key thing which would help us as far as moving things along a little bit faster.

There may be ways for us to streamline the requirements for submission of military construction projects that require us to get all of these individual approvals. I think most of the speeding up can be done at our end as far as getting the design done in a more accurate and timely fashion and having a better package when we come forward.

Mr. **Daniel**. Are you a member of the MWR Coordinating Committee?

Admiral **Harlow**. Although I am not a member of the MWR coordinating committee, I do serve as a member of the Navy's MWR Policy Board. In fact, I frequently Chair it. The chairman is the Chief of Naval Personnel and he frequently passes the Chair to me after initiating the policy board meeting.

Mr. **Daniel**. Obviously, then, you think it's effective?

Admiral **Harlow**. I do think the MWR policy board is effective. I have been pleased in the time I have served on it to see how well all of the Navy comes together. As I mentioned in my statement, the logic that we drive with is the concept of one Navy. Major claimants who are interested in morale, welfare and recreation and quality of life meet together in one room. I think the dialog that we enjoy and the exchange of ideas have served to improve our morale, welfare, and recreation programs. I think it is a good functioning organization, yes, sir.

Mr. **Daniel**. Have there been any changes made since you became a member of the committee? Are you doing anything to try to improve the effectiveness of it?

Admiral **Harlow**. The dilemma we have, of course, is that we are a worldwide organization. Some parts of our organization are better able to generate profits which then turn around and improve programs locally. We have been trying to push the idea of corporate support so that the rich don't get richer, so to speak. We have some small facilities that just don't have the ability to generate profits. Therefore, their programs suffer from it. By bringing everyone together, I think we are working better at distributing the wealth, if you will, to make sure we have good quality programs.

Also, another major initiative now is to reduce the backlog of facilities that we have had for so long. Those are two prime successes of the MWR policy board I think we have seen, and we intend to proceed along those lines.

Mr. **Daniel**. I can well appreciate the problem that you have in the catch-22 situation. Mr. Dellums and I have talked about this and we may have a joint hearing on it before too long, a joint committee discussion. Then, of course, we have to do the same thing with our counterparts on the Appropriations Committee.

I realize it is a problem for you. It has to be a problem for all of us, and it is our responsibility to get it resolved, I hope we are going to be able to do that: at least make it better anyhow.

Thank you, Mr. Chairman.

Mr. **Nichols**. Mr. Martin.

Mr. **Martin**. Yes, thank you, Mr. Chairman, just a couple of questions.

Maybe my figures are inaccurate—if they are, would you please let me know, Admiral?

You have one project requested in this year's program for a $900,000 golf clubhouse at NAS Oceana. A review of the base MWR recreational survey showed only a small percentage, something in the area of 18 percent of the active duty personnel there played golf, and only 40 of the 1,800 respondents thought that more golf facilities were needed. That's 40 of 1,800. I was just wondering if those figures were accurate and if they are, how did this project become such a high priority? And believe me, I am not against golf courses.

Admiral **Harlow**. The percentage is correct. I think it was about 340 out of 1,800, that gives us the 18 percent return on that particular survey.

Mr. **Martin**. If I might, my understanding is the 18 percent played golf. But the figures I have, only 40 of those 1,800 thought the facilities there inadequate. I think those are two different figures.

Admiral **Harlow**. We have figures which indicate that we have about 20,000 people playing golf on the average down there that are enlisted, and then another 15 or so thousand that are officers. So, I think the numbers of people playing golf are great. We will have to provide those specifics if you would like to know what the exact figures are.

However, it is a popular facility at Oceana from what I understand. The people who were asked said, yes, a golf course is a good thing to have. As far as the clubhouse is concerned, it survived the prioritization process that was submitted as a project at the local command level. The local commander felt that it was worthwhile. We have to rely on the word coming from the local commander saying this is a money-making operation. It has a lot of activity. It supports not only the people there at Oceana—I think a lot of people come over from Dam Neck and the entire Norfolk complex.

Mr. **Martin**. Admiral, would you check to make sure that those figures are correct?

Admiral **Harlow**. I will provide that for you.

Mr. **Martin**. Let me ask you: Forgetting that 18 percent said they played golf, and I would think it would be higher than that—but if only 40 of 1,800 said that more facilities were needed that would raise a question in your mind, too, wouldn't it?

Admiral **Harlow**. Yes, but I think it has to do with what is there now. It is a small shack that provides limited capability. If we put a new facility in there, it will have a snack bar, a pro shop, and so on. I don't think it has anything to do with the golf course. It just has to do with this clubhouse. I think that's the issue.

Mr. **MARTIN**. You will get that?

Admiral **HARLOW**. I will get that for you, yes, sir.

Mr. **MARTIN**. Thank you.

[The following information was received for the record:]

NAVAL AIR STATION OCEANA CLUBHOUSE

The Naval Air Station Oceana Recreational Services Survey was distributed to over 6,000 active duty personnel. Thirty-seven percent or 2,199 survey questionnaires were returned. Of those responding, 95% valued the golf course as an integral part of the overall recreation program. Forty of 1,800 respondents indicated a need to expand the golf course. The need for a new golf clubhouse was determined from an inhouse assessment of present program needs. The existing clubhouse was constructed in 1955 by combining three World War II huts that are now in a badly deteriorated condition, requiring replacement. A new golf clubhouse facility will provide revenues to support other recreation needs.

Mr. **MARTIN**. I yield back.

Mr. **DANIEL** [presiding]. Mr. Whitehurst, do you have any additional questions?

Mr. **WHITEHURST**. No, thank you, Mr. Chairman.

Mr. **DANIEL**. Does staff have any questions?

Mr. **WATERS**. I have one or two questions, Mr. Chairman.

Mr. **DANIEL**. Mr. Waters?

Mr. **WATERS**. It is more or less a followup, Admiral, to some of the questions that have been raised here this morning regarding the facility in London and our golf course. In the statement you submitted for the record you described your shore facility planning system, which is used to identify, develop, and program your MWR requirements. Within that system there are a number of primary factors which are used to identify the facilities to be constructed.

One of the identifying factors is the population served. Now, as we review many of these projects we find that the population served may be the installation population plus the retirees that live off the installation. The installation population can also be segmented with many folks married, and many of those living off the base.

The question is: When you are developing or identifying a facility, what population are you using to size it?

Admiral **HARLOW**. It is primarily for the use of our active duty sailors and their families. That is the core around which all of our facilities are programmed. Now, we know that if we provide a good facility we are going to encourage the use by retired people in the community also. We size our operations based on our expected usage. But the core around which we build it is for that active duty sailor, and that active duty sailor is the highest priority as far as utilization is concerned in all of our facilities. We go to him first, then we go to the active duty reservists, then the dependents, and work our way right down.

It is a balancing act, of course, to determine how big the population usage will be. We know if we produce a good facility, people will come from long distances to use it. Our desire is to provide it at an affordable cost for our Navy members, but we really focus on that active duty sailor.

Mr. **Waters**. Thank you, Admiral.

The last question I have has to do with the amount of appropriated funds that are used in some of your activities. Appropriated dollars are authorized for use for management personnel, building maintenance, equipment repair, and so forth. As we look at some of the golf and bowling centers at Navy installations we find that the amount of appropriated funds is minimal compared to the use by some of the other services. For example, at the naval station in San Diego, we found that all the management people were NAF personnel, particularly at the bowling alley and the golf courses.

Do you have any idea what the overall percentage would be of appropriated funds support versus NAF support for your MWR facilities?

Admiral **Harlow**. I would have to provide that percentage for the record. Our desire is to use appropriated funds to the maximum extent authorized. We look very carefully at ways to use appropriated dollars appropriately and properly within the authorizations that we have based on Department of Defense guidance. The use of appropriated funds allows us to use nonappropriated dollars to expand programs and cover other expenses nor authorized with appropriated funds.

I will have to provide that percentage for you, but we do try to use it wherever we can as long as it is authorized.

[The following information was received for the record:]

Appropriated Nonappropriated Funding Support

The overall percentage of operational and capital spending in support of Navy recreation programs for fiscal year 1985 approximates 44 percent appropriated, 56 percent nonappropriated.

Mr. **Waters**. Thank you, Admiral. Thank you, Mr. Chairman.

Mr. **Nichols**. Mr. Chairman, could I ask one further question?

Mr. **Daniel**. Mr. Nichols.

Mr. **Nichols**. I can understand, of course, the need for construction facilities and moneys for your larger ports: Charleston, San Diego, and so forth. But just a few months ago, the Navy announced some rather significant changes in homeporting. My State got several ships; Tampa received some ships and even New York City. There were six or seven of these homeporting announcements.

My question is: In your plans, what arrangements have you made to look after the Navy personnel associated with homeporting?

HOMEPORTING

Admiral **Harlow**. We are currently reviewing facility requirements necessary to provide quality of life services for those crews and for their families that are going to be located in those areas.

One of the significant items in determining facility requirements is the local commander. If we don't have a commander in a local area we will have some of our experts visit the local area and survey what's available on the economy and on other military installations in the local area to provide support for those people, and put together a package of appropriated fund projects to meet the quality of life requirements of our people.

For example, we are now looking at how do do this for the New York complex. We have not completed the list of projects but we are trying to determine what is needed.

We don't just think about building new facilities. We want to take advantage of what exists in the local community and on site which may be underutilized. We have dealt with the Armed Forces YMCA of U.S.A., for example, to see if there are some things that they can provide for us in conjunction with an increase of military population in the local area.

So it is a combination of what exists, what we feel our people need based on experience, and how to provide quality of life improvements for our people who are going to have to live in that area.

Mr. **Nichols**. How would the MWR facilities be funded, Admiral?

Admiral **Harlow**. A combination of appropriated dollars and nonappropriated dollars. We support the concept of a new operation being entirely funded with appropriated dollars, of course. I would love to see it all be appropriated money.

Mr. **Nichols**. What kind of a timeframe are we looking at? You obviously don't have any plans in fiscal year 1986.

Admiral **Harlow**. No, sir.

Mr. **Nichols**. Would you anticipate there might be some projects for these new home ports perhaps in 1987 or 1988?

Admiral **Harlow**. It won't be in 1986, of course. The soonest it would be, would be 1987, more likely 1988, yes, sir.

Mr. **Nichols**. Thank you, Mr. Chairman.

Mr. **Daniel**. It is our understanding, Admiral, that you want to accelerate your lodge program by debt financing from Navy MWR funds and commercial sources. What amount of money are we talking about and tell us about your financial arrangements?

Admiral **Harlow**. The Navy Lodge Program is a very successful program and it has been one we have wanted to expand for a long time. The utilization is very high. We have an annual average occupancy rate of 90 percent. It is principally for people that are on permanent change of station orders.

The desire and the need for lodges throughout the entire system has been demanding that we find a way to build more of them. Profits generated in the Navy Lodge Program are now being used to finance expansion and new construction. Construction can be accelerated by debt financing from other sources including the Navy Exchange system itself, short-term loans from Navy Military Personnel Command and the Army Air Force Exchange System, and, finally, from commercial lines of credit.

I can't give you off the top of my head the moneys we are talking about on a year to year basis but I can provide that, because we do have a plan, and I will provide that plan for you on how we intend to do that out over the next 5 or 7 years.

[The following information was received for the record:]

NAVY LODGE DEBT FINANCING

The Navy Lodge program is self sustaining but accrued capital investment monies are at present insufficient to construct all needed facilities. With the approval of the

Comptroller of the Navy, a debt financing plan has been developed to provide up to $25 million in loans to supplement the $9 million on hand and $8 million in projected revenues during the next four years to accelerate construction of needed facilities. Up to $25 million, as required, can be borrowed to finance the currently proposed $42 million construction program. The Navy exchange program is the primary source for loans at current Certificate of Deposit (CD) rates. Agreements are in place to borrow, on a short term basis (4-6 months), monies from both Naval Military Personnel Command and Army Air Force Exchange System (AAFES) any time the Navy exchange program is low on cash. In addition a commercial line of credit is in place for long term loans if required. Loans from the Navy MWR funds will be at CD rates, from AAFES at prime and from commercial sources at prime minus one percent.

Mr. **Daniel**. How would you repay that loan? From revenues?

Admiral **Harlow**. That's correct. It is a very profitable system that is doing very well and we would just pay it right back from the profits made in the lodges, yes, sir.

Mr. **Daniel**. Mr. Holton.

Mr. **Holton**. Thank you, Mr. Chairman.

One of the projects in the 1986 program is for $7 million to add 200 units to the currently existing 100-unit Navy lodge in Norfolk.

Have you considered any commercial alternatives instead of building the lodge yourself?

Admiral **Harlow**. As a matter of fact, that particular project is a test case on a turnkey operation where a commercial contractor would come in, build it and turn it over to us.

Mr. **Holton**. That's not quite what I meant.

Have you considered telling a commercial builder, to build something off-base rather than building it yourself?

Admiral **Harlow**. We are always looking for ways to provide the best quality service for our men and women. We have talked to this issue about whether we would have someone come in and do it and run it for us. There are a lot of things that have to be resolved. We are not turning our backs on any good ideas. I don't think we have a specific project but we are always looking for ways to do something like what you are referring to.

We don't have a project that's in the works right now.

Mr. **Holton**. Admiral, let's talk a bit about your construction system.

Last year the panel approved an exchange project at Imperial Beach and two lodges—one at Philadelphia and one at Great Lakes. The panel has been told these projects have design problems, and the one at Great Lakes is over budget and may have to be downscoped. These are not isolated instances when we look at the Navy program.

What is the problem with getting these facilities built? Especially since lodges and exchanges are supposed to be standard designs.

Admiral **Harlow**. Lodges are closer to being standard designs than exchanges are. A lodge is a lot easier to standardize and do a cookie cutter type of operation. We run into problems such as what you are talking about because we develop the specifications that we feel are necessary for what we want developed, and then we turn it over to a firm. Occasionally we run into problems when commercial design firms do not follow project specifications. When we get to certain points, usually concept and 35 percent, we carefully review the design submission. If we find they haven't followed the specs, then we go back and say, no, you have to do it over. We had an example of this at Point Mugu recently. After the design company said they were ready to proceed beyond the 35 percent design stage, we said, no, you are not following the specifications which were given to you to develop this project. We refused to accept the design. They had to redesign it at their own cost. So I think it is just good management practice that sometimes brings these things up.

What we are trying to do is stay a lot closer to our projects through the entire design process I think we will prevent some of these problems from coming up in the future.

Mr. HOLTON. As we go out and visit the bases, a lot of responsibility is being placed on the base commanders and the major commands. The base commander must determine his needs and how to build them while the major commands must review the base commander's decisions.

We are finding a lot of facilities that we are building not so much for the needs of the troops but because that's what the base commander and the MWR staff wants.

What do you, at your level, or Captain Woods' level, do to verify what is actually occurring; how instructions are being implemented; whether these are good projects, et cetera?

Mr. DANIEL. Admiral, would you withhold your response for just a moment.

The Chair recognizes the gentleman from New York, Mr. Martin, for the purpose of making a motion.

Mr. MARTIN. Yes, Mr. Chairman, I would like to move that at any time the Chair can declare this session in Executive Session.

Mr. DANIEL. For the purpose of obtaining national security information. The clerk will call the roll.

Mr. COFER. Mr. Daniel.

Mr. DANIEL. Aye.

Mr. COFER. Mr. Whitehurst.

Mr. WHITEHURST. Aye.

Mr. COFER. Mr. Nichols.

Mr. NICHOLS. Aye.

Mr. COFER. Mr. Martin.

Mr. MARTIN. Aye.

Mr. COFER. All votes are in favor, Mr. Chairman.

Mr. DANIEL. Please proceed, Admiral.

Admiral HARLOW. My morale, welfare and recreation staff stays very close to local operations. A lot of my people are continually on the road making assist visits. We have regular workshops where we get together with our various morale, welfare and recreation representatives throughout the system for the purpose of exchanging ideas about morale, welfare and recreation facility development, program development, and so on.

We have a constrant exchange of information with the local commands through our field representative services program. They work closely with local command staffs. We also put an awful lot of guidance out—I hope not too much. In the last couple of years we also instituted an audit capability where we send some of our own internal audit people out to help the local commanders take a look at their programs.

I think we have a good feel for what is going on at the local level. However, it is the base commander's responsibility to know what is going on in his organization and to be sensitive to the needs of the organization that he controls.

Before commanding officers go out to become commanders of these major installations, they come through a prospective commanding officer course, which is run here in Washington—not expressly for morale, welfare and recreation or quality of life. They spend 3 weeks here. We provide them with the tools and the information that they need to manage local bases.

We train our people to fly airplanes and drive ships. Somewhere around the captain level they are asked to serve in positions similar to local mayors. We have instituted this course to help them do a better job.

The morale, welfare and recreation people have almost a full day with them to inform them of the ins and outs, how things work, and tell them who they should get to know on their installation. I think we would find that most local commanding officers who are concerned with morale—which is their primary function out there as a commanding officer—really get into the quality of life and morale programs. So I think that they are supported by the morale, welfare and recreation staff, and not driven by the morale, welfare and recreation staffs. That has been my experience.

Mr. **Whitehurst**. Mr. Chairman?

Mr. **Daniel**. Mr. Whitehurst.

Mr. **Whitehurst**. I should have asked this earlier. I introduced a bill some weeks ago that would provide for the services to pay compensation to volunteers—to reimburse them is the proper word. And as we both know, volunteers do a tremendous job.

Could you share your views on this for the record, Admiral?

Admiral **Harlow**. Absolutely. Volunteerism in the Navy is an absolute imperative, as far as, again, quality of life or morale, welfare and recreation. Active duty and retire members often volunteer to coach teams in the military and civilian community.

The ombudsman program, which is a significant program in our quality of life initiatives, is a perfect example of dependent wives becoming involved in the support that is so important to younger families. An example: In my command here in Washington, one would think why would you need an ombudsman for dependent families? We think of it only in the operating area, for instance, in Norfolk or in San Diego where we send ships to sea and then we have a lot of single parents left behind. About four months ago, a wife of a chief petty officer who was ordered into Washington, came and knocked on my door and said, "I think that you need an ombudsman in your command, Admiral."

I said, "Why is that?"

She said, "Well, I ran into some young people who have been ordered to Washington and this young gal had no knowledge of child care services, commissaries and so on. She lives a long distance away because that's the only place she was able to afford."

She said, "I think I could help."

So, she is my ombudsman now. Mrs. Gahagen has been worth her weight in gold in the short time she has been aboard in making me aware of some of the dilemmas that we have. That is an example of how volunteers just pull our organization a lot closer together, make it feel like more a family that is so important to us.

Mr. **Whitehurst**. That's fine and I am all for that. But this specific proposal would permit compensation for them, that is, reimbursement for expenses they have incurred out of their pockets.

Admiral **Harlow**. I think that's absolutely necessary because they do incur an awful lot of expenses: telephone calls, taxicab rides. Anything like that would be just recognition of the tremendous support they give us I totally support that, sir.

Mr. **Whitehurst**. Thanks for a great answer.

Admiral **Harlow**. Yes, sir.

Mr. **Daniel**. If there are no questions, Admiral, thank you very much for your appearance this morning. We will have some additional questions we wish you would provide sponsores as rapidly as possible.

Admiral **Harlow**. Thank you.

[The following questions were submitted to the witness to be answered for the record:]

COMMISSARY STORE CONSTRUCTION

Chairman Daniel: The Navy takes considerably longer than the Air Force to build its commissaries. Please summarize the significant differences between your two systems. Are there any initiatives to streamline your system to build stores quicker?

Admiral Harlow: In accordance with Navy Procurement Directives, the Naval Facilities Engineering Command (NAVFACENGCOM) is the design and construction agent for all Navy construction. NAVFACENGCOM adheres to military construction laws and regulations for architect/engineer (A/E) selection, contract award and prosecution of design work. The NAVFACENGCOM objective for the design process is to complete a competitive, fixed price construction bid package 70 weeks from the time design is authorized. This process requires the preparation of detailed plans and specifications for the construction project to permit formally advertised contracts. Once the bid package is ready to be advertised 12-16 weeks may be required for advertisement, bid opening and construction contract award, again in accordance with applicable laws and regulations. Construction time may be 52 weeks or more depending on the size, location and complexity of the project. In summary the NAVFACENGCOM design/construction objective for commissary projects will result in approximately a 138 week time frame for completion.

Closer coordination between NAVFACENGCOM and its field divisions with the Navy Resale and Services Support Office, especially in the predesign phase, is expected to reduce design time. An initiative in this regard is the repeat use of experienced A/E firms for commissary projects in the same geographical area. Use of experienced A/E firms is expected to ease the "learning curve" of dealing with governmental regulations. In addition, action has been taken to include procurement and installation of refrigeration equipment as part of the construction contract vice having equipment government furnished and contractor installed. This initiative lessens contract change orders due to equipment mismatches and thereby is expected to reduce overall construction time. Additionally, commissary floor plans have been standardized to reduce interior design work.

NORTH ISLAND GOLF CLUBHOUSE

Chairman Daniel: One project submitted this year was a $1.4 million golf clubhouse at North Island San Diego. Part of the justification for this project is that the Base Master Plan was changing and the base wanted to put an enlisted barracks where the clubhouse is currently located. Who makes these decisions? How does the fact that service members are being forced out of their building and must build a new facility with their own money get factored into these decisions?

Admiral Harlow: Through the Shore Facility Planning System real estate and facility requirements are aligned to support mission assignments. This process of evaluation and definition addresses all command elements at each Navy installation. The results of this overall planning action are represented through the Base Master Plan. Each Base Master Plan is reviewed by every applicable command element prior to final approval by the Office of the Chief of Naval Operations. Base Master Plans are reviewed and updated at least every five years.

Whenever possible, common land uses are coordinated to prevent conflicts in function, service, etc. Sometimes, however, the primary use functions of local land resources require changes to meet new or revised mission assignments. In other cases, open space areas may be utilized to support requirements which differ from the long term plan. These interim requirements are carefully considered to minimize overall impact on operations. At Naval Air Station North Island the existing inadequate golf clubhouse facility is located on land programmed to support needed enlisted barracks. The temporary golf structure was placed on this site during the interim period to provide services pending construction of an adequate golf clubhouse facility. The site of the existing clubhouse differs from that of the new facility which will conform to the golf coarse and patron needs. The current temporary facility is a wooden shack which will not be missed when an adequate facility is provided. It should also be noted the clubhouse is and will continue to be an "all-hands" facility at North Island.

NAVAL WEAPONS CENTER YORKTOWN BOWLING CENTER

Chairman Daniel: A project for a 6 lane bowling center at Naval Weapons Center Yorktown was started in 1983 and approved in 1984. However, when the project reached 100 percent design in 1985, the design was found to be unacceptable.

Why does it take 3 years to build a 6 lane bowling alley?

What steps does the Navy take to prevent situations like this? Is there a standard design for these business-type activities within the Navy or are we redesigning facilities like bowling alleys over-and-over again?

Admiral Harlow: The Naval Weapons Center Yorktown Bowling Center project was in design from June 1984 to August 1985. The 100 percent design submission was delayed approximately thirty days pending incorporation of a snack bar and various fire safety requirements omitted by the projects design firm. Code requirements were addressed during this period which permitted design completion.

The occurrence of significant time delays in the design of some facilities is usually attributable to insufficient pre-project planning, unforeseen site problems, or unsatisfactory functional design development by commercial design agents. Any of these elements have the potential to, and usually do, contribute to significant delays in overall project execution. Greater use of design manuals which more clearly define acceptable standard design solutions with more stringent project pre-planning are reducing amount of design breakage associated with morale, welfare and recreation projects.

BERMUDA CONVENIENCE STORE

Chairman Daniel: One project in this year's program is for a convenience store in Bermuda . In reviewing this project the panel determined that the return on investment for this project is about .2 percent. In the past the panel has stated that profit producing projects should have a high return on investment before we should consider building them. How was this project selected as a high Navy priority?

Admiral Harlow: Financial return is only one of the factors used to evaluate a project. "Fact of Life" replacement of existing old facilities that cannot be renovated or modernized economically is an ever present consideration. In the case of replacing the convenience store at NAS Bermuda the existing facility is located in a wooden building built in 1942 that due to age and type of construction has deteriorated to the point that it must be replaced. This coupled with it being an overseas location with no alternative source for this service were considered more significant than the low Internal Rate of Return. In short, it was decided to proceed to replace this facility as soon as possible so as not to interrupt providing convenience store service to the Navy patrons in this overseas location.

EXPANDED HOMEPORT CONSTRUCTION REQUIREMENTS

Chairman Daniel: The Secretary of the Navy has announced that he wants to open and/or expand several installations in New York, Everett, Washington and a number of Gulf locations. What commissary, exchange and Morale, Welfare and Recreation projects are going to be needed at these location? Are appropriated or nonappropriated funds expected to build these facilities?

Admiral Harlow: Preliminary facility planning in support of the expanded homeporting initiatives is currently underway. General morale, welfare and recreation project listings have been developed for the New York and Everett sites. This information is presented below. Requirements at the gulf coast sites, Corpus Christi, Pascogoula and Mobile are in the process of being developed but have not been defined at this time. Appropriated military construction funds are authorized to support development of facility deficiencies at new and expanded bases. This support is required. However if this funding is not received other nonappropriated fund sources will be considered or requirements deferred.

New York. Pierside Location Exchange, Main Navy Exchange, Commissary, Navy Lodge, Consolidated Mess, Youth Center, Child Care Center, Outdoor Courts and Fields, Physical Fitness Center Renovation, Theater Renovation, Indoor Pool, Picnic Area Facilities, Outdoor Pool, Fleet Recreation Center, Bowling Center, Consolidated Package Store, Automotive Hobby Center and Arts and Crafts Center Renovation.

Everett. Pierside Location Exchange, Main Navy Exchange, Commissary, Consolidated Mess, Outdoor Courts and Fields, Physical Fitness Center, Indoor Pool, Bowling Center, Consolidated Package Store, Indoor Courts, Automotive Hobby Center, Theater and Fleet Recreation Center.

COMMISSARY STORE SIZING CRITERIA

Chairman Daniel: DoD has proposed eliminating a formal criteria for sizing commissaries. What effect will this have? How will the Navy size its new stores?

Admiral Harlow: DoD construction sizing criteria has always been used as a guideline for Navy commissaries and these criteria are sufficiently flexible to accommodate Navy needs. However, each commissary is sized individually based on area demographics to determine customer population and projected sales. Projected sales are then used to determine square footage requirements for sizing a commissary. If DoD formal criteria is eliminated there will be no impact on Navy since commissary sizing has always been based on justifiable needs.

1983 MWR CONSTRUCTION STUDY

Chairman Daniel: General Chavarrie's predecessor, LT GEN Tice, had a consultant review Morale, Welfare and Recreation (MWR) construction. The 1983 study found: facilities were too large and too abundant, facilities were being built by personnel with questionable planning skills, fees and charges were much lower than those in the civilian sector, and guidance on fees and charges was unclear and conflicting.

During the last few years the panel has found that these problems continue to exist. What have you done to get these problems corrected?

Admiral Harlow: In addition to the use of sizing criteria, demographics, design manuals, industry standards, customer needs, etc, facility planning in the Navy now includes environmental adjustment factors to further ensure facilities are properly sized to meet program needs. Environmental adjustment factors are sizing modifiers which reflect availability of like facilities in neighboring commercial/military sectors. Demonstrated need as well as supporting use documentation is required before facilities may be sized beyond the environmental adjustment factor level. This process has been effective in preventing the construction of over-sized facilities. All facilities are sized and built in conformance to the Navy Shore Facilities Planning System and are not considered too large or abundant for the population served.

In addition to the commercial design agents used to plan Navy facilities, specialized in-house facility planning representatives review all project submissions. These design reviews are coordinated with local command representatives to ensure functional needs are properly addressed and reflect cost effective proposals. Additional attention is also being directed to greater up-front planning at the local level to better define needs, services, programs, and requirements to be addressed with each facility design program.

Regarding fees and charges, Navy policy is that fees should be lower than the charges at comparable commercial activities in the local community. Varying conditions influence the level of fees such as labor costs and prevailing fees in the commercial sector. Generally, Navy tries to ensure a savings of approximately 15-20% below the civilian market. A Resource Assessment is providing data to local managers on the level of outside fees. Fees and charges are reviewed by the chain of command and during on-site visits by field representatives of the Naval Military Personnel Command.

CONSOLIDATED PACKAGE STORE PROFITS FOR ENTERTAINMENT

Chairman Daniel: You are requesting the panel to reconsider its position on the use of package store profits and want to use them for such things as quality entertainment. What are the current statistics on the use of package stores profits -- i.e. what percent is going to the club vs Morale, Welfare and Recreation (MWR) activities? Why do you want to return to subsidizing operations with package store profits? What limits would you place on the use of the profits?

Admiral Harlow: Consolidated Package Store (CPS) profit distributions over the past 2 fiscal years have averaged 52% to Recreation; 37% to clubs (for authorized purposes: capital improvements, common support services, isolated/remote sites); and 11% retained by the CPS for reinvestment in inventory/capital improvements.

We want to refine the rules on the use of CPS profits because we believe that the circumstances have changed substantially since 1979 when the MWR Panel initially defined the appropriate uses of

CPS profits for clubs. As a result of the Panel's guidance in 1979, CPS profits are now used in clubs to finance only capital expenditures, common support costs, and isolated/remote club operations.

Today, club operations face new financial challenges due to the decline in alcohol sales. Their mission however, has not changed. They are intended to foster camaraderie and friendship in a relaxed atmosphere. The very nature of our service requires frequent and often long separations; consequently we want to provide services and entertainment to satisfy the needs of our patrons. Offsetting entertainment costs with CPS profits would provide a finite, fiscal enhancement for our clubs to meet their evolving status as a focal point for social camaraderie in an acceptable environment. These profits would not be subsidizing food or bar operations - rather quality entertainment as an alternative for patrons, especially those under the age 21.

We would propose limiting the use of CPS profits to those areas authorized by the Panel in 1979, (see above), plus adding authority to use such profits to finance quality entertainment costs. We are now exploring furtner limits such as a maximum subsidy of 25% of annual entertainment costs, and central booking/funding of quality entertainment.

CONSTRUCTION CRITERIA

Chairman Daniel: You work with the DoD construction criteria quite closely. What is your opinion as to its usefulness in sizing facilities?

Admiral Harlow: The DoD construction criteria is a useful planning tool but should not be considered absolute dogma for sizing facilities. As a guideline the criteria is usable but each proposed project must be developed and sized based on specific area/installation requirements.

DIVIDEND DISTRIBUTION

Chairman Daniel: The Army uses the entire Army Air Force Exchange System dividend to centrally fund facility construction, and depends on each installation to fund its own programs. The Navy takes the opposite approach and allocates most of its dividends for programs instead of construction.

In light of your many facility needs, please explain the philosophy for allocating dividends? What mechanism do you have to ensure that these monies are being spent properly and support the most desired programs?

Admiral Harlow: Navy's goal is to reduce the backlog of major Nonappropriated Fund (NAF) facility deficiencies by at least 10%/year by dedicating centrally managed nonappropriated funds to such deficiencies as a top priority. A portion of exchange dividends (50%) goes into this fund as do other sources of NAF support (50% of Consolidated Package Store (CPS) profits, 25% of slot machine profits, 3 1/2-5% of ships store sales, and interest earnings). Because of these other sources of NAF revenues, we are able to finance approximately $22M/year to reduce the major NAF facilities backlog without having to dedicate all exchange dividends to this purpose. Navy distributed the 50% balance of exchange dividends to the chain of command to supplement local user fees and thus, along with appropriated funds help reduce or eliminate fees for fitness related activities, and extend operating hours.

Regarding the mechanism to ensure that monies are being spent properly and support the most desired programs, Navy now uses an annual budget process to document requirements for exchange dividends. These budgets are submitted to major claimants who control exchange profit distributions to supplement local operations.

BARBERS POINT ARTS AND CRAFTS CENTER

Chairman Daniel: The other services have taken surveys on what types of projects military members desire to see built. Arts and crafts centers are usually ranked very low on facilities desired by service members.

In the program submitted to the panel one project is for a $1.7 million dollar arts and crafts center at NAS Barbers Point.

Please explain the rationale for this project? Who determined that the people at Barbers Point want, and will use, such an extensive arts and crafts center? How was this project sized?

Admiral Harlow: The Naval Air Station Barbers Point is approximately 30 minutes driving time (15 miles) by private vehicle from the nearest metropolitan center. Commercial or government transportation is not available to the 10,000 active duty personnel and their dependents stationed or housed at this command. The land area adjacent to the base is agricultural in nature and does not include a town center.

The need for an Arts and Crafts Hobby Center was determined from a survey of assigned personnel who strongly requested this facility. There is no similar program in the surrounding community and the previous facility was demolished in 1981. Personnel assigned to this command have voiced a very high interest in this program need since that time. All active duty personnel and their dependents will be eligible to use this facility. Patron survey results have shown the strongest base of interest among enlisted personnel, dependents and youth. Program interest is targeted towards general crafts , ceramics, wood working, photography, skill classes, instructional rooms, and resale services. The basic requirements needed to support these functions coupled with the projected size of the user population defined the scope of this hobby center. Facility sizing has also been coordinated with existing criteria. The high cost of this specific project is directly related to the construction cost multiple 3.2 applied to the Hawaii area. The comparative cost for continental United States construction is approximately $530K.

NAVY LODGE CONSTRUCTION COSTS

Chairman Daniel: The latest estimate of the average construction cost per unit for your Navy Lodges Program is $35,000 for a 375 sq. ft. unit. This does not include land cost. We have been told that commercial builders can construct units for less than $25,000 including land. Have you compared your construction costs to commercial facilities? Are there any lessons that can be learned from commercial builders?

Admiral Harlow: The Navy Resale and Services Support Office (NAVRESSO) has compared Navy Lodge costs to commercial costs. Since Navy Lodges are specifically designed to accommodate Navy families during permanent change of station moves they contain items that are not normally included in commercial facilities. All Navy Lodge units are set up as efficiency units, that is they include: two double beds and a sleeper sofa to accommodate at least a family of five; kitchenette equipment consisting of stove, refrigerator, sink, cupboards and dishes/kitchen utensils. New Navy Lodges also include guest laundry facilities, handicapped units, a vending machine area, and children's playground. Unlike commercial facilities, they do not include restaurant facilities. Comparison with commercial facilities is an "apples to oranges" situation. Based on information obtained from the American Hotel/Motel Association the 1984 estimated cost of Days Inn and Holiday Inn suburban construction is $30-36,000 per unit exclusive of land costs. These motels are in the 2-300 unit range which is considerably larger than most Navy Lodge projects, and are routinely constructed on a repetitive basis. Additionally, the March 12, 1984 issue of Forbes Magazine article "Room at the Top" indicated that a commercial class hotel (300 rooms in Stanford, Conn.) would cost $44,000 per room exclusive of land costs. NAVRESSO in coordination with the Naval Facilities Engineering Command is developing a "turnkey" procurement package for a Navy Lodge. This procedure will utilize a single contractor for design and construction of a lodge to take advantage of hotel/motel builder expertise thereby obtaining the best quality product at least cost.

LONG RANGE/FIVE YEAR CONSTRUCTION PLANS

Chairman Daniel: An Office of the Secretary of Defense instruction requires inventorying and prioritizing of Morale, Welfare and Recreation (MWR) activities and developing long-range plans. We have seen many installations that either did not have a 5-year plan, or it was just a very elementary construction schedule. We have not found many plans that determined MWR needs, developed a program to meet those needs, and then determined what facilities are needed to house the programs. For the most part, the regulations seem adequate but the implementation at the base level seems woefully inadequate. How can you bridge the gap between the regulations and their implementation? How do you follow-up to verify installations are properly implementing your regulations?

Admiral Harlow: Navy MWR facility long range construction plans are developed on a systemwide basis to recognize needs based on seriousness of a deficiency, area demographics, operational requirements and costs. Each project is individually evaluated by the chain of command as to where it best fits into the five year program based on Navy wide need. These long range plans are consistent with local activity Master Plans. Project execution control is retained by the Commander, Navy Resale and Services Support Office for exchange, lodge and commissary facilities and Commander, Naval Military Personnel Command for recreation and mess projects. On-site verification is further enhanced through staff field representatives who perform on-site review functions.

NAVAL AIR STATION DALLAS BOWLING ALLEY

Chairman Daniel: The Navy is requesting $950,000 in nonappropriated funds to construct an 8 lane bowling alley and recreation center at the Naval Air Station in Dallas, Texas. The primary mission of this installation is to support Navy Air Reserve Units.

Is this project being built for active duty or reservists?

Will an 8 lane bowling center be economically self-sufficient or will it need appropriated fund support?

How did this project become a top Navy priority?

Admiral Harlow: The Naval Air Station Dallas, Texas presently supports over 1,400 assigned active duty personnel with significant growth projected by 1990. Naval reserve drilling personnel were not included in determining the primary program needs at this command. The Bowling Center project has been reviewed and supported by the entire chain of command based on the needs of the present assigned population, the lack of another center within a thirty minute commuting distance, and the unavailability of family related recreation opportunities. The eight lane center has a projected annual net income level of $36,000.00. Nonappropriated funds will provide the primary support for the operation and staffing of this program.

POINT MUGU PLAYING FIELD

Chairman Daniel: Last year the Navy received approval to build a playing field at Point Mugu, California. This year the Navy is reducing the scope of the project because of unacceptable cost.

Please explain why there is a problem designing a playing field? Why does it take several years to build softball fields?

Admiral Harlow: The design and construction of playing field projects have not normally represented problems in execution or experienced significant delays. The Naval Air Station Point Mugu, California Playing Field project required redesign when the project design agent significantly deviated from government specifications and planning criteria. The architectural firm redesigned this project to conform to contractual arrangements at no additional cost to the government. We feel this was the proper course of action to correct this situation.

QUALIFIED MANAGERS

Chairman Daniel: A major problem occurs after we build these facilities -- we don't have qualified managers to run them!

Please explain what you are doing to improve your management personnel.

Admiral Harlow: At Naval Military Personnel Command we have instituted a management intern program to develop better trained people for recreation, club, and fleet recreation coordinator management positions. We have established performance standards for recreation and club managers and are holding them to these standards. At headquarters we approve all top management appointments and are consistently striving to enhance training opportunities for our managers.

The Navy Resale and Services Support Office has no major problems in hiring or keeping qualified managers. An active training program for Navy exchange managers is in effect.

FIVE YEAR CONSTRUCTION PLAN

Chairman Daniel: In reviewing the changes to Navy Resale and Services Support Office's (NAVRESSO) 5-year plan a number of problems seem to keep reoccurring. For example, 2 exchange projects have slipped 1-2 years because of siting problems.

In addition, 5 commissary projects have slipped at least 1 year because of design problems.

Do these problems indicate something is wrong with the Navy's construction system?

Please explain the relationships involved in the decision making process that leads to problems in picking a site for an exchange.

The panel has been told Navy commissaries follow a standard design. If so, what kinds of design problems are occurring in these projects?

Admiral Harlow: The five year plan is a long range plan and as such is refined and developed for execution in an annual budget year. The project need is identified, evaluated, included in the five year plan and then detailed planning and development occurs. During the planning phase siting for a project is investigated. Due to the need for sufficient acreage to accommodate unique retail requirements such as customer vehicle parking spaces and delivery truck access, suitable sites can not always be readily made available. Alternative building orientation, parking layout and traffic flow schemes must be investigated which affects design time. A problem in general is that Naval installations do not always have sufficient land available to site a 6-20 acre facility or shopping mall complex. Planning is always done within the context of the Navy's Shore Facilities Planning System (SFPS) in accordance with existing regulations. Conformance to the SFPS for siting, especially when there are other operational requirements competing for constrained land resources, is not an easy task. Best use of available land is a primary consideration in the SFPS and occasionally proposed sites for exchange or commissary facilities must give way to emerging operational facility siting. Some siting problems cannot be identified until the detailed design process is initiated. Typical issues to be resolved might include environmental considerations, utilities location/adequacy and traffic access.

Navy commissary design is accomplished in accordance with prototype layouts that have been developed for various sized facilities. Few problems are experienced with interior designs. Problems do occur with siting as previously explained. NAVRESSO is taking action to minimize siting problems by better advanced planning to identify issues to be resolved in advance of design authorization.

PROJECT SMART COMPASS

Chairman Daniel: The Navy, to date, has not conducted a survey to determine the needs and/or interests of its sailors. Your statement mentions a project called "Smart Compass" that is being completed and will provide this survey. Will you please explain what "Smart Compass" is and how it will tie into your construction program?

Admiral Harlow: Project "Smart Compass" is a comprehensive set of assessment tools which includes needs, resource, program and cost assessments. The Navy-wide assessment program will be completed at all stations by the end of FY-87, with triennial updates following thereafter. This set of tools provides local commands with the critical data needed to plan, market, and operate high quality, cost effective programs that meet the needs of Navy members and families. Each local command will use the information garnered by the "Smart Compass" program to develop and maintain their 5-year Master Program Plan for construction. The plan is used to project and quantify programs, provide a prioritization system, and to validate projects.

PROFITABILITY OF NAVY CLUBS

Chairman Daniel: Almost 30% (75 of 266) of Navy Clubs were not profitable for the 10 months ending July 1985, including 1/3 of the officer clubs. Your statement mentions several Navy initiatives to reverse these financial troubles including upgrading food service and acquiring quality entertainment. Do you have any actual experience with these initiatives? Are there any clubs where you have been able to reverse these financial problems?

Admiral Harlow: Of the 75 clubs losing money as of July 1985, 27 became profitable by fiscal year end and achieved year to date profitability by 30 September 1985. Another 27 clubs made a profit in either August or September 1985.

Of the 27 Officers' clubs losing money as of July 1985, 8 became profitable by fiscal year end and achieved year to date profitability by 30 September 1985. Another 10 Officers' clubs made a profit in either August or September 1985.

We have a staff of club field representatives who provide on-site assistance to clubs needing or desiring help. This consists of hands-on assistance and in some cases interim management. Also, the Club Enhancement Program is designed to improve food production and service through professional training. The joint services Culinary Upgrade Programs has improved the professionalism of our personnel and has helped to reverse the financial difficulties of some clubs. Successes to date are indicative of our managers' ability to be reactive and pro-active in meeting the challenges of our responsible use of alcohol program and introduction of fast food franchises.

APPROPRIATED FUND SUPPORT FOR PROFIT GENERATING ACTIVITIES

Chairman Daniel: What is the Navy policy on using appropriated funds for profit generating activities like bowling and golf? How much appropriated fund support did these activities receive last year and what was it used for?

Admiral Harlow: Navy has implemented DOD policy with respect to appropriated funds support of Morale, Welfare and Recreation (MWR) activities including revenue generators. For example, military welfare and recreation activities are divided up into 3 groups: Group 1 which includes libraries and self directed sports/physical fitness programs is intended to be supported fully with appropriated funds. Group 2 which includes arts and crafts, competitive sports and youth activities is intended to be supported primarily with appropriated funds. Group 3 which includes the major revenue generators (bowling, golf) is intended to be primarily supported with nonappropriated funds. "Revenue generators" do not mean profit generators. Fees are charged to help offset the cost of doing business but they are not intended to fully offset such costs. Department of Defense (DOD) and Navy appropriated fund support policy is thus defined for each expense element for each type of morale, welfare and recreation activity. Some day to day operating expenses are authorized appropriated fund support. For example, for military recreation revenue generators (group 3), appropriated fund support is authorized for utilities outside of the Continental United States (CONUS) and in CONUS only when the base is more than 10 miles or 30 minutes commuting distance from a comparable commercial activity. Further, Navy directives prohibit assignment of appropriated fund personnel to other than managerial positions for golf courses, swimming pools and bowling centers. Custodial and janitorial services is a nonappropriated fund support requirement except when the facilities are used for official functions. With respect to repairs and maintenance, appropriated support is authorized for recurrent, day to day, periodic, or scheduled work required to preserve the facility, its installed equipment, and its premises. With respect to golf course maintenance, appropriated fund personnel may not be used in maintaining greens, bunkers, sand traps etc. unless fully reimbursed with nonappropriated funds to the government. Normal installation landscape maintenance by the base civil engineer is authorized (e.g. mowing fairways).

Appropriated support to Navy military recreation programs in FY-84 totalled $121M, used as follows:

Military & Civilian Personnel	$34M
Utilities, Maintenance, Repair	$53M
Equipment & Supplies	$11M
Travel, Transportation, Communications	$ 1M
Facility Construction (Major, Minor) and all Other	$22M

Appropriated support for individual programs such as bowling/golf/crafts etc. is not reported.

STOVEPIPE ORGANIZATION

Chairman Daniel: The Navy recently reorganized its exchange operations into a stovepipe organization where managers report directly to Navy Resale Services and Support Office instead of the base commander. This is similar to the Navy commissary organizational structure. This structure makes sense given the business nature of the commissaries and exchanges.

Do you think other resale activities in the Morale, Welfare and Recreation (MWR) world -- golf, bowling, etc. -- should also be in a stovepipe structure to put them on a more business like footing?

Admiral Harlow: I feel strongly that revenue generating recreational activities such as golf and bowling should not be removed from the direct responsibility of the installation commander and placed in a stovepipe organization. Such activities are individual elements of the total recreational opportunity which the local commander must orchestrate in order to ensure that the overall quality of life of the local community is adequately accommodated. While there is some resale involved in such activities, their primary function is the recreational experience provided. All such experience opportunities must be coordinated locally to ensure maximum cost effectiveness. In the Navy, all these recreation activities are supported by a single local nonappropriated fund instrumentality called the recreation fund which enhances such coordination and cost effectiveness

NONAPPROPRIATED FUND CONSTRUCTION REPORT

Chairman Daniel: The Panel's nonappropriated fund construction report to Dr. Korb last year noted that we found: inaccurate data on the 1391's, nonexistent or superficial project justifications, and poor long-range planning.

Our earlier report on 1984 projects noted problems with developing service-wide priorities and excessive construction times.

We seem to be finding these same problems this year. What have you done to correct these problems?

Admiral Harlow: The Panel's 1984 report deferred three projects which were and are still considered valid Navy requirements. In accordance with the Panel's direction these projects are being reevaluated for future programming. Other Panel concerns with project justification and planning were noted and continuing efforts are being made at all levels to improve coordination within Navy. Additional actions to improve detailed project planning and resolve problems are being emphasized for all project types.

COORDINATING COMMITTEE

Chairman Daniel: Are you a member of the Department of Defense Morale, Welfare and Recreation (DOD) (MWR) Coordinating Committee?

What is your opinion of its effectiveness in providing oversight for the MWR community?

Admiral Harlow: I am not a member of the DOD MWR Coordinating Committee but I am represented within this group by a Navy Captain who serves as the staff coordinator for all MWR functions within the Navy. I believe that this committee provides a very effective forum for enhancing consistency among the services on common MWR issues. I serve as a member of the Navy's MWR Policy Board which is our oversight group, and I chair that Board in the absence of the Chief of Naval Personnel.

NAVY LODGE

Chairman Daniel: The Navy Lodge program appears different from the programs in the other services. What is your target market? Do your room rates reflect the total cost of operating the facility or are there appropriated fund subsidies? How do you size your units? What comparisons have you made with commercial facilities as to unit size, construction costs, etc.?

Admiral Harlow: The Navy Lodge program is targeted to primarily serve active duty personnel and their dependents who require temporary lodging during permanent change of station (PCS) moves. A secondary market is other categories of active duty personnel, i.e., unaccompanied PCS, personnel on temporary duty orders, families of patients in Naval Hospitals. The tertiary market is active duty personnel in a leave status and retired military personnel. The use of Navy Lodge facilities is subject to certain restrictions to ensure PCS families receive priority for lodging. Room rates are set to provide sufficient operating funds to totally maintain the program and provide funds for construction, improvement and renovation of lodges. Appropriated funds are utilized only in accordance with DoD/Navy regulations for such items as cyclical structural maintenance and repairs, and for utilities costs overseas. Individual units are sized to accommodate a family of five and include kitchenettes. The size of the facility to be constructed (number of units) is determined by considering PCS moves in the area, length of stay, specific local conditions (average waiting time for base housing, civilian housing availability, hotel/motel availability) and our experience with similar lodges and toll free phone reservation requests. The facility size is targeted to obtain 85 percent occupancy. Navy Lodges are generally comparable to commercial hotel/motel units in size and construction cost although there are differences that make exact comparison impossible. For example, it is not widespread industry practice to build kitchenette units.

NAVY LODGE OCCUPANCY

Chairman Daniel: The panel received some occupancy statistics for Navy Lodges. They showed about 90% occupancy for the system. Of this, about 54% of the rooms were occupied by personnel on permanent change of station (PCS) orders.

Can you tell us the breakout of active duty occupancy vs other users? If these lodges are being built chiefly for active duty families moving into or out of an area, isn't 54% a low success rate at satisfying the target market?

Admiral Harlow: The mission of the Navy Lodge Program is to provide quality temporary lodging at the most affordable price for military families in a PCS status. Annual PCS occupancy has averaged 52% the past three years, though it is significantly higher in peak PCS travel months. Other categories of active duty comprise 36% of total occupancy while retired personnel are 12% of total annual occupancy. PCS occupancy is seasonal, normally high in the summer when moves take place and correspondingly lower in the winter. Since the lodge program is self sustaining and a room not rented is revenue lost forever, available rooms are rented to eligible personnel but priority is always given to PCS personnel. Annual Navy Lodge occupancy is approximately 90%. The hotel/motel industry considers 65% a break even point. The Navy Lodge program is providing a needed service and is successfully maintaining itself. The program has good success rate in meeting the needs of PCS personnel. Additional lodges are needed to better serve Navy families, especially in fleet concentration areas.

NAVAL AIR STATION OCEANA GOLF CLUBHOUSE

Chairman Daniel: One project requested in this year's program is a $900,000.00 golf clubhouse at NAS Oceana. A review of the base Morale Welfare Recreation Recreational survey revealed that only a small percentage (18%) of active duty personnel played golf. Only 40 of 1,800 respondents thought more golf facilities were needed.

How did this project become a high Navy priority? What is the review process to screen these project?

Admiral Harlow: Facility deficiencies identified for potential major construction with nonappropriated funds are first prioritized at the local command level. These projects are correlated with program needs, facility assets, mission impact, location, patron interests, health and safety, etc, by the sponsoring command. Recreation and mess requirements which are identified as the highest priority need are then nominated to each respective Echelon II command for further evaluation and prioritization to the Recreational Services Facility Review Board (FRB). The FRB is composed of representatives from all Echelon II commands. All project nominations are further reviewed and prioritized by this Board and forwarded to the Commander, Naval Military Personnel Command for approval. The need for a new golf clubhouse at Naval Air Station was determined from an inhouse assessment of present program needs and validated through chain of command review. The existing clubhouse was constructed in 1955 by combining three World War II huts that are now in a badly deteriorated condition, requiring replacement. The survey data indicating only limited expansion of the golf facilities was supported referred directly to the golf course and not the clubhouse facility. The course does not require or warrant expansion. The clubhouse is inadequate requiring replacement to support this activity. Ninety five percent of survey responses value the golf program and consider it an integral part of the overall recreation program. Over fifteen thousand military personnel reside in the immediate vacinity of Naval Air Station Oceana. This facility provides a significant level of support for the entire recreation program. The club house will further enhance golf contribution to our other programs at Naval Air Station Oceana.

MILITARY CONSTRUCTION PROCESS

Chairman Daniel: The time and cost it takes to construct these basic business facilities really appears excessive. For example, it takes 2 to 4 years to design and build projects like clubs, bowling centers and commissaries.

What is being done to reduce the time and cost for these projects?

Have you ever considered bypassing the military construction channels and hiring a civilian firm that specializes in grocery stores or restaurants to build these facilities?

Admiral Harlow: Significant efforts are being directed towards improved project coordination to identify and resolve problems early in the planning and design of projects. Specific actions include: the use of experienced Architect/Engineer firms for design of more than one project; including procurement and installation of equipment by the construction contractor to minimize change orders; design authorization as early as feasible to facilitate design completion well in advance of the construction budget year and greater customer involvement. The military construction system can and will work with proper coordination and a higher degree of advanced planning. Existing Navy regulations do not permit bypassing military construction channels. Special emphasis is being placed on earliest definition of function needs which represents the bases for the design program to be executed. The Naval Facility Engineering Command serves as the design and construction agent for all Navy projects. Architectural design specialists are used whenever special considerations warrant this action.

1980 GENERAL ACCOUNTING OFFICE REPORT

Chairman Daniel: In 1980 the General Accounting Office (GAO) found that some morale, welfare and recreation facilities were larger than needed, inadequately planned and/or did not have a documented need. The GAO's findings pertained to all the services.

What did the Navy do to improve its construction program as a result of the GAO report?

Admiral Harlow: The findings of the 1980 GAO report were carefully reviewed. Several actions have been sponsored to improve the quality of our overall construction program. These actions include greater project prenomination screening of need and justification by all echelons of command; requirement for expanded scope and cost analysis; improved project pre-planning criteria; development of facility design manuals; prior project certification and site approval; more intensive design reviews; higher quality documentation; and development of additional supplemental project data to support documented need. This collective information contributes to the determination of proper facility sizing. In addition, the Construction Subcommittee of the Department of Defense Morale, Welfare and Recreation Coordinating Committee has sponsored several criteria revisions to more accurately define and respond to local command facility requirements.

NAVY LODGE ACCELERATED DEBT FINANCING

Chairman Daniel: The Navy wants to accelerate its lodge program by debt financing from either Army Air Force Exchange System (AAFES), Navy Morale, Welfare and Recreation (MWR) funds, and/or commercial source. What amount of money is involved with these programs? Please explain the financial source and arrangements, including the estimated borrowing costs.

Admiral Harlow: The Navy Lodge program is self sustaining but accrued capital investment monies are at present insufficient to construct all needed facilities. With the approval of the Comptroller of the Navy, a debt financing plan has been developed to provide up to $25 million in loans to supplement the $9 million on hand and $8 million in projected revenues during the next four years to accelerate construction of needed facilities. Up to $25 million, as required, can be borrowed to finance the currently proposed $42 million construction program. The Navy exchange program is the primary source for loans at current certificate of deposit (CD) rates. Agreements are in place to borrow on a short term basis (4-6 months) monies from both Navy Military Personnel Command and AAFES at any time the Navy exchange program is low on cash. In addition, a commercial line of credit is in place for long term loans if required. Loans from the Navy funds will be at CD rates, from AAFES at prime, and from commercial sources at prime minus one percent.

Mr. DANIEL. During the first day of hearing, we had a very full schedule and were not able to give the Army time to fully explain its program. To remedy that situation, the panel has invited back two of the Army's witnesses: Maj. Gen. Robert Joyce is the Commander of Army MWR, while Brig. Gen. James Hayes is the Army Commissary Commander.

Generals, welcome back, both of you. We are sorry that we didn't have time to complete your testimony a few days ago.

Let the Chair state at this point that we are going to hear these two gentlemen for 45 minutes in open session. At the conclusion of that time we are going into executive session to discuss a matter of national security interest.

Thank you very much, gentlemen, you may proceed as you desire.

STATEMENTS OF MAJ. GEN. ROBERT M. JOYCE, COMMANDER, U.S. ARMY COMMUNITY AND FAMILY SUPPORT CENTER, ACCOMPANIED BY COL. RICHARD ROSS; AND BRIG. GEN. JAMES S. HAYES, COMMANDER, U.S. ARMY TROOP SUPPORT AGENCY, DEPARTMENT OF THE ARMY

General JOYCE. Mr. Chairman, I appreciate your indulgence in allowing us to return. I already made my opening remarks which have been entered into the record.

I do have one thing to add. As a result of the discussion that took place and a meeting with Congressman Martin, I think I have come to a better understanding of some of the committee's objections to the wording of the substance of what was called the hotel initiative. I have redone my page 7 for the record. I would just like to quote what I feel are the cogent parts at this time.

The part that Mr. Martin quoted on first-class accommodations and the like, I have changed to reflect what I had intended to say and perhaps make the wording more clear.

> The challenge is to provide the standards of service and quality associated with nationally known hospitality chains for the Army family, on-post, at affordable prices—and in the process bring on board some modern, community-oriented facilities which are geared to the needs of Army families in transit but operated to the "brand name" standards common in the larger American society.

I think that that more accurately reflects what the thrust of this initiative is, sir.

Mr. **Daniel**. Without objection, the record will be changed accordingly.

Mr. **Martin**. May I just ask where this is?

Mr. **Daniel**. Yes, sir.

Mr. **Martin**. Which page, General?

General **Joyce**. It's an amendment to page 7 of my original statement. At the bottom of the page where I had a paragraph beginning "The challenge is to provide * * *," I have changed the wording of that. [See statement, p. 68.]

[The following information was received for the record:]

> The challenge is to provide the standards of service and quality associated with nationally known hospitality chains for * * *.

Mr. **Daniel**. General Hayes, do you have any additional remarks you care to make?

General **Hayes**. Yes, sir. I also am pleased to have been asked back for today's hearings.

As a matter of clarification, at our earlier session, Mr. Nichols asked about our plans for a new commissary at Fort Drum in support of the 10th Mountain Division. That project is currently in our fiscal year 1986 surcharge funded construction program which the committee has under review at this time.

We have just completed the 35 percent design review for that project. We anticipate final design will be completed by the end of April 1986 with contract award by mid-June, 1986, which will give us beneficial occupancy in November 1987. With that, we are looking at then opening that new store at Fort Drum in either late 1987 or January 1988. That's a little later than we wanted. We will be working with the district engineer to see if we can't accelerate that schedule, but that is the current status of our project for Fort Drum at this time.

Mr. **Daniel**. OK.

Does that conclude your statement?

General **Hayes**. Yes, sir.

Mr. **Daniel**. General Joyce, are you a member of the OSD MWR Coordinating Committee?

General **Joyce**. Yes, sir.

Mr. **Daniel**. What is your view of its effectiveness in providing oversight for the MWR community?

General **Joyce**. In my experience, it functions primarily in an advisory capacity.

Mr. **Daniel**. Please expand on that statement.

General **Joyce**. I attended the meetings, I guess the first two years that I was associated with the program. It reflects the mode that was described by the OSD witnesses two weeks ago as primarily oversight rather than actually driving a program. It does not really impact upon my operations. It has not been responsible for any of the initiatives that we have.

I would say that its usefulness is in an advisory role and a means by which the people from the various services can get together to discuss ideas and approaches to problem-solving.

Mr. DANIEL. Is it a worthwhile function?

General JOYCE. I think in that mode it's worthwhile. It has not really had much of an effect, as I said, on any of the major initiatives that we have been involved in. The services appear to go their own ways. I know our program is quite a bit different from the Air Force program and the Navy program.

Mr. DANIEL. Your statement mentions how construction priorities are set. However, it isn't clear how the final decision is made. Once the major command selects their most needed projects and Headquarters Department of the Army determines the amount of funding available, who determines which projects are selected?

General JOYCE. The Morale, Welfare and Recreation Review Committee is the final screen on NAF construction projects before they go to the department of Army Construction Requirements Review Committee. The major commands all apply their own tests for prioritizing projects. And when they have assembled a priority list they submit their list of projects to the Department of Army Morale, Welfare and Recreation Review Committee.

We have two screens that we impose. One of them is a meeting of deputies that reviews all the projects and attempts to sort out a priority order and screen out projects that are not considered good uses of nonappropriated funds.

The principals of the Department of Army Review Committee then review the project listing again to see if these appear to be legitimate projects. We have a Department level priority matrix that we use in which we attempt to score the value of a project to the total Army. That is a very difficult thing to do and you always end up making some sort of intangible judgments. But we also let the major commands know the standards by which these will be reviewed at the departmental level.

So, while in Germany the priority for a project may be determined, for example, by its proximity to the border, when you look at projects from the departmental level, our criteria are more universal. You always end up somewhere along the way making a value judgment whether in the context of the total Army something should be prioritized high or low. But after we are finished with them and we have an assigned priority order, they go to the departmental Construction Requirements Review Committee which is chaired by the Chief of Engineers. Then they go from there to our Assistant Secretary for Installations and Logistics and finally come over to your committee. So they are screened about six times on the way up. I don't know if there's really any way that anyone can tell somewhere along the line whether we really have got the priority right. I think we do the best we can.

Mr. DANIEL. General Hayes, the Commissary Executive Board, in one of its studies, recommended that your Yuma, AZ store be transferred and supported by the Marine Corps.

Can you explain to us what has happened to this initiative?

General **Hayes**. Yes, sir, after evaluating the recommendation that we provide support to our Yuma store from the Marine Corps El Toro Distribution Center, we decided to table action on that recommendation pending the outcome of our central distribution study which we had under way in CONUS. When we looked at the El Toro stockage list we found that it did not satisfy all the needs for the products that we had in our Yuma store, therefore, it would still be necessary for us to rely upon our local commercial distributor network and the military sales force that were calling on the store. Rather than making some change or get into a situation as to whether or not it would be economically feasible for us to have commercial distributors as well as the El Toro Distribution Center supporting us, we decided to hold off until we sorted everything out on our central distribution study and its recommendations. We are in the throes of doing that at this point in time.

Mr. **Daniel**. No action has been taken?

General **Hayes**. No action has been taken on that particular recommendation.

Mr. **Daniel**. Mr. Martin.

Mr. **Martin**. Thank you very much, Mr. Chairman. Welcome back, gentlemen.

Let me ask you, General Joyce, is Colonel Richard Ross with you?

General **Joyce**. Yes, sir, he is in the back, sir.

Mr. **Martin**. I had a couple of questions for both of you.

Mr. **Daniel**. Colonel, come up to the witness table, please.

Mr. **Martin**. I appreciate the change in language from the previous testimony and the conversations we have had. You were kind enough to come by the office so that we could discuss the need for guest houses, and the apparent confusion we had over the term hotel, and all that it embraced.

This morning's Army Times has a story that is attributed to the Colonel and that's why I wanted to make sure that we are all playing with the same facts. I don't know if you have had the opportunity to see the story. Perhaps I should have made copies. The headline reads: "$40 Million Hotel Complex Plan for Korea." I have been misquoted from time to time in various newspapers and I wanted to run through this to make sure this article is correct. Let's discuss a few of these items. Separate and apart from this community center and hotel in Yongsan, Korea, is a new $5 million main service club, geared mainly to junior officers that is going to be built across the street. Is that correct, Colonel?

Colonel Ross. Yes, sir. Junior officers and enlisted soldiers.

Mr. **Martin**. OK.

Let me just read a couple of paragraphs.

> The hotel will have 270 single rooms, all with double beds, bathrooms, refrigerators and microwave ovens, and eight one-bedroom suites. Many of the single rooms will connect with adjacent rooms to accommodate families and service members traveling in groups.

Is that accurate?

Colonel Ross. Yes, sir.

Mr. **Martin**. The hotel will have a red tiled roof so it blends in with the design of neighboring Korean buildings.

The hotel will have three dining rooms, including one for luxury dining; two cocktail lounges, a swimming pool, and jacuzzi, weights, sauna, exercise and dance rooms, indoor and outdoor tennis courts, racquetball courts, and a pro shop, and a children's play area.

Is that accurate?

Colonel Ross. Not quite, sir.

Mr. **Martin**. Do you want me to run through that again?

Colonel Ross. There are no planned indoor tennis courts that I am aware of, sir, and luxury may be too rich a word to describe our fine dining room.

Mr. **Martin**. OK, scrub that.

Aside from that it's reasonably accurate?

Colonel Ross. I believe so, sir.

Mr. **Martin**. "A 25,000 square foot retail wing with 15 to 20 stores, a gift shop, a 15-game slot machine room, video room, 2,000 square foot Post Exchange, a travel desk, a beauty parlor and barber shop, Baskin Robbins ice cream store, and a pizza outlet."

Colonel Ross. Yes, sir, all included in the 2,500 square feet.

Mr. **Martin**. Conference facilities include a 450-seat ballroom that can be divided into four to six rooms, six to eight meeting rooms, a 25-seat board room, a post office, and parking for 400 cars.

Colonel Ross. Yes, sir, but to clarify, somewhat, the ballroom will be divided into three smaller rooms and there will only be five other small meeting rooms.

Mr. **Martin**. Now, Colonel Ross is quoted as saying: "While the Yongsan project will be too big to build at other Army installations, we could adopt many of its features to smaller post guest house projects." Is that an accurate quote from you?

Colonel Ross. I don't know if I said it in that context or the guest house project. What we were seeking was some synergism of some of the ideas that were involved in this project, such as the combining of some of our projects under one roof, under one management structure. Part of our problem now is trying to cater to the different market segments that we have on certain installations such as in the food arena, sir. The idea of having or hiring three different chefs and three different food and beverage directors for three different type facilities is expensive. Whereas, in this facility there is one kitchen serving three different restaurants. Actually, there are six different restaurants in this facility.

Mr. **Martin**. I said three.

Colonel Ross. There are several fast-food and a snack bar operation also, sir. So there would be six different food facilities in this complex to serve the different markets.

Mr. **Martin**. You pointed out here that the Burger King fast food restaurant would be nearby but part of the community.

Colonel Ross. Yes, sir, that's within a block.

Mr. **Martin**. Having read this, I want to make reservations right off.

Let me ask you this: In the confusion that the general and I had, and I thought it was ironed out, this really doesn't conjure up in my mind the guest house that the sergeant and his family need. There's just not an awful lot here that appears to relate to a guest house. This sounds somewhat like a luxury hotel. As a matter of fact, I can't think of anything that isn't here, that I would ask for if I were going to take a 2-week vacation anywhere with just my wife.

Do we still have some confusion here? Could we adopt many of its features in smaller guest house projects? Is that really what we are talking about? Is this a guest house?

General **Joyce**. I don't see any real contradiction between what I said in the statement and this project. In the process of planning this, they are also planning the closure of about a half a dozen various club and food operations.

Mr. **Martin**. In fairness, the closing of some clubs is indicated here.

General **Joyce**. The population you are dealing with is, generally speaking, a young family that goes to Korea and lands in a foreign country and needs a full range of services. They have dealt with this problem by leasing space in hotels in Korea, in Seoul, but there really has never been a facility designed for this purpose where a family could go.

Mr. **Nichols**. Will the gentleman yield?

Mr. **Martin**. Yes.

Mr. **Nichols**. I have been as interested as the gentleman from New York about this whole hotel complex business. I would remind the gentleman that we have facilities in CONUS, like the Sheraton, Day's Inn, Ramada, Holiday Inn, you name it. These type facilities are simply nonexistent in the Republic of Korea. I would be more tolerant, I think, of this sort of a project in Korea than I would with hotels on bases in metropolitan areas. I just want to make that observation to him.

Mr. **Martin**. The gentleman's comments are well taken by this gentleman. I agree. I am just trying to do two things: One, to understand that we are all playing with the same ideas in mind, as to what is a guest house and what is a hotel. I certainly appreciate the difference between it being in CONUS and not being in CONUS, and that is why I raised the question. I also want to understand the colonel's comments about adopting many of the features on smaller guest house projects at other Army installations.

The other thing that I am trying to get at is what the general points out very well in his statement—that when you go to a base it can be a very traumatic time. Generally this occurs 15 to 20 times in the career of an officer or NCO. You arrive with your children looking for a place to stay. The gentleman talked about Day's Inn, Ramada, and those type of lodgings. Very often our people can't really afford to stay in the Day's Inn for 2 or 3 weeks at a time until housing becomes available. During that time you are looking for the basics for your family, like feed them, and do it without pounding your pocketbook too badly.

So I am raising the question as to whether or not we are getting into a situation where we are providing a luxury hotel—there's no getting around that—whether it is in Korea or wherever—at a price they can ill afford, with services they are going to pay for that they really don't need. Families moving need a clothes washer, a clothes dryer, a kitchen, bathroom, and a bed for everybody. If you have three or four children, you need two or three adjoining rooms. You also need an affordable price for these two or three rooms. The Colonel said it will cost from $20 to $25 a night for the single rooms—and up to $40 a night for the suite of rooms.

I just think with the limited number of dollars we have—and nothing is too good for our service people or their families—I want to make sure that we are not building something for them that they can't afford when we could take the same money and provide what they do need.

Mr. **Nichols**. If the gentleman will yield further, let me say I appreciate that line of questioning. This committee faced a similar situation 20 years ago, Mr. Chairman, when we talked about an R&R point in Honolulu, HI. The original design, if I am correct, of that facility, had some VIP suites in it for four star and even two star, generals, one star generals and, bird colonels. This committee saw fit to downplay that a little bit. I believe I am correct, that all of those rooms are now the same facilities—you can get a little too plush with these things. The gentleman's question is certainly in line.

Mr. **Martin**. I would say to the gentleman, having availed myself of that R&R opportunity—of course, there were an awful lot of us going on R&R to Hawaii at the time—I think we had two more payments and it would be free and clear of that operation in 1968 and 1969. But that was on the economy.

I am not trying to be chintze with the troops, but I just wonder whether we are building something that they can afford.

That's why I raised the line of questioning of $40 million. I look at how many places where we need transient facilities, and I raise the question to give you the opportunity to explain to us why that is a good investment given we really need transient facilities on virtually every base.

The question, I think, is legitimate, and I would appreciate an answer.

General **Joyce**. I would just make a couple of points. One of them is that affordability was one of the prime concerns, because we are currently paying very high rates at local hotels. And although there's a temporary lodging allowance paid for travelers going to Korea, the rates at the hotels, including the one that we leased, were much higher than what you have quoted.

The second thing is that in addition to providing convenience for the people that stay there, by including a lot of these facilities that you mentioned, we are attempting to put the hotel on as self-sufficient basis as possible. In other words, you make money from those various activities by bringing them all under one roof and it helps pay the overhead support costs.

The idea of this facility over at Yongsan is to run it the same way we were charged by the committee to run the Hale Koa Hotel; in other words, with a minimum of appropriated funds support.

Mr. **Martin**. Excuse me if I interrupt at that point.

Is the General saying that at this $20 to $25 a night per single, and $40 a night for a suite, and given the facilities there, that is what you need to break even?

General **Joyce**. That's the idea.

Mr. **Martin**. And amortize the $40 million?

General **Joyce**. Yes, sir.

Colonel **Ross**. Yes, sir.

General JOYCE. And that is substantially lower than what people are paying right now that are in temporary lodgings in Seoul.

Colonel ROSS. If I could, sir, add to the General's statement. It goes beyond just lodging, sir. We have a population we are supporting of 60,000-plus in all of Korea, there are 20,000 in Yongsan itself, sir. We are looking at closing six to eight facilities which currently are not meeting the needs of either the transient or the post population assigned there.

The object here was to be able to provide for the post population in addition to the transient, or the traveler, whether it was a recreation type facility or a decent meal, the idea of providing for each of these categories separately would be impossible. But by combining and doing it under one roof, we could provide for both the local folks and the travelers, sir.

Mr. MARTIN. Colonel, it was pointed out, in the article, that you are closing a number of facilities in and around where this is going to be built. And it's all off post; is that correct?

Colonel ROSS. No, sir, it is all on post, sir.

Mr. MARTIN. This is all on post?

Colonel ROSS. Yes, sir. And the facilities being closed would, accordingly then, save—we are looking at a million to a million and a half in appropriated dollars savings.

Mr. MARTIN. That is not pointed out in the article, in fairness, so it is on a military installation run by the U.S. Army.

Colonel ROSS. Yes, sir.

Mr. MARTIN. The Chair might state that General Livsey has made a case for this installation to the panel. He wants us to come over there and take a look at it. I hope that some of us can go.

I think the question that we need to ask, though, is this your highest priority at the present time in that part of the world; is it your highest priority?

General JOYCE. Yes, sir.

Mr. DANIEL. I would like to suggest, Colonel, that you sit down with Mr. Martin, if you haven't already done so, and go over not only the proposal but also what led up to it. There's a long history behind this that he needs to know. So I would like to suggest that you, sit down with him and explain the entire operation to him. Then perhaps later on next year, Mr. Martin will be able to go over there, take a look for himself, and see whether there are any recommendations we want to make.

Do you have something further?

Mr. MARTIN. No, I yield back.

Mr. DANIEL. Mr. Nichols.

Mr. NICHOLS. Thank you, Mr. Chairman.

General Joyce and General Hayes, what is your branch of service? Are you infantry or artillery?

General JOYCE. I am Adjutant General Corps.

General HAYES. I am Quartermaster Corps, sir.

Mr. NICHOLS. I want to talk a little bit about this facility at Fort Sill.

You have a request in here to enclose the swimming pools at both the officers and NCO clubs at Fort Sill for $5 million. The plans—and I am looking at those—seem rather elaborate to me. They call for a health bar. What is a health bar?

General JOYCE. It is a place where you can get nonalcoholic drinks and snacks, and things that people normally eat in health bars.

Mr. NICHOLS. Nonalcoholic snacks. OK.

You have a pro shop on here. You have a spa bath. Then you have a Nautilus gym. What is a Nautilus gym, sir?

General JOYCE. I don't recognize the definition. Normally, Nautilus equipment occupies one gymnasium room, I mean, if you have the various pieces of it. It's a trade name in body building and exercise equipment.

Mr. NICHOLS. You have a jazzercise room here; my staff tells me this is where you exercise to music?

General JOYCE. Yes, sir.

Mr. NICHOLS. Similar to Jane Fonda's exercise on the television.

I question the extent of this project, just as the gentleman from New York has questioned this other project. I happened to be at Fort Sill a number of years ago and the main exercise we got was on the firing range up toward Signal Mountain.

Why is this facility your top priority, and tell us how the Army plans to support it?

General JOYCE. It is a trial, sir. It is a test case. The reason we are doing two of them is to see how they appeal to officers as well as NCO's, so we are going to see how they work for each. We feel that although it is expensive, it may be money well spent.

Since we got into the mode that I described last week of trying to drive toward capital investment and improving of the plant, I guess once we began to get relatively successful, I began to be concerned what we were going to use the money for. I had a feeling that if we just replicated what was out there, we might be going to perpetuate some anachronisms out there around the world, because generally the Army has got a World War II, and earlier, MWR plant. What we have is sort of a concept leftover from the draft Army when a lot of the people that came in had never been out of their home town before and they needed a service club, a place where they could sit down and write a letter, get home cooking. They needed a variety of things that were provided in World War II era facilities.

The soldiers that we get now don't live in squad barracks anymore; they are largely married, many of them live off post; they have cars. They don't have the same interests or the same needs that people had in those prior days.

We see that reflected in the performance of a lot of our clubs where it is not just the fact that there is concern within the Army about drinking now, but actually, people are drinking less throughout the society.

We have looked for things that we ought to be doing. Surveys, although we have tried them, really may not be completely reliable, because people don't always act according to the way they respond on the survey.

We have tried suggesting different kinds of recreational forms out in the world. The Chief of Staff of the Army has sent out a message telling all the commanders that since we have now developed a capability to fund some new capital projects, they really ought to think about what it is we should be funding; should we just replace what we already have? You know, there's a tendency to do that. I go to a lot of recreational facilities around the United States that were built even in the last 10 years, and frequently there's nobody there. The young people are doing something else. We know that what a lot of the young professional people are doing is joining the kinds of things you call health clubs. Where a principal reason, say, for going to the old club used to be the comradeship of single affairs and NCO's, we don't have a population that's largely single junior officers and single NCO's anymore. And if the only reason to gather at the club—you know, if the club is a place where you can eat and drink, this doesn't sync well with the ethic of an institution that places great value in readiness, physical fitness and family obligations—and is kind of out of snyc with the larger society as well.

So we are hopeful that at Fort Sill, where they already have an officers club that like most clubs is kind of operating on the margin, we will see some new clientele. Many clubs are being kept alive substantially by the retired population who still remember life as it was at the time those clubs were built.

The younger people are going to places in town where they offer a combination of fitness activities, as well as social one. At the Fort Sill club, for example, they already have a swimming pool and some adjacent tennis courts—and we are trying to tie these and other new facilities together with the existing club to create something that we could call contemporary, and see whether this appeals to the comtemporary junior officer and junior NCO's.

Mr. Nichols. Have you conducted a ration survey on this concept?

General Joyce. Yes, we have, and found, for one thing—one of your questions was how would we support it. The physical fitness part of it—our proposal would be to support this as a pay-as-you-go activity unlike the gyms on post. And unlike the gymnasiums, post racquetball courts and the like that are funded by taxpayers' money, this would be a membership kind of activity, more along the lines of the Pentagon athletic center where you pay a fee to belong, and you pay your overhead costs that way.

Mr. Nichols. All I can say is, the troops are looking for something different than they were 40 years ago. The picture you have painted is a good one. I am delighted and I hope that is the case.

Mr. Daniel. Before the gentleman leaves that point, would you yield to me?

Mr. Nichols. Of course, Mr. Chairman.

Mr. Daniel. If this is physical fitness which is required by the Services, why should it be paid for by nonappropriated funds?

General Joyce. We are making it a conjunctive project with the club operation. So we felt that it would be the committee's position that it should be self-sufficient from supported funds.

Mr. Nichols. Let me respond to that. I believe General Chavarrie's testimony stated that the Department of Defense had a policy of not building sports or recreation facilities onto clubs or messes.

Has the Army received a waiver from that policy for these health clubs that you are purposing at Fort Sill?

General Joyce. I have heard differing views on that subject, too, Mr. Nichols, where some people have said that it's all right, and others have said, well, we have never done it. I have heard, depending on the source that the services should not combine appropriated fund and nonappropriated fund [NAF] projects; and other people have said, yes, we encourage you to do that.

So I haven't felt as though we were bound by anything definite that said we couldn't do that.

Mr. **Daniel**. Is this part of Secretary Marsh's program to move away from alcoholic beverages toward fitness type programs? Is this what we are talking about?

General **Joyce**. It is partly that, Mr. Daniel; and it's partly recognition of the fact that younger people in the military, like younger civilians, are doing different things and they have different interests than they used to years back.

Mr. **Daniel**. I thank the gentleman for yielding.

Mr. **Nichols**. Mr. Cofer, do you have any questions?

Mr. **Cofer**. Mr. Chairman, I would just like to point out one or two things with this project.

The staff has not looked at it in detail but it does represent a revolutionary kind of thinking within the Army. I won't comment on the present club system. But some of the key data that the staff has asked for, like, like how many gymnasiums do we have on that base has not been provided.

We have been attempting to get basic data like how many facilities are thre now where people do their aerobics; how many tennis courts; how many recquetball courts are on the base. We want to see if these projects are duplicating existing facilities. What are we duplication. That is one issue that has to be considered.

The second issue is right now civilians can be members of an officers club if they work on-base. Generally, they join the club and they pay the same amount of dues as the active duty person in Supply or Logistics. Most of their trade is at lunch time—they eat. They don't frequently come back to eat dinner or use the facility at night.

The preliminary data that I saw on this project was that in order to be self-sufficient support all of the physical fitness activities, civilians are going to have parties, et cetera. in the clubs. I think the committee will have to consider whether getting into competition with the Holiday Spas or the physical fitness centers off base.

So this kind of project, I think, warrants very considerable attention by the panel, because it is no longer a club. Is it a gym? Does it duplicate the racquetball courts that we built with taxpayer expense? There appears to be a duplication of many of these things.

Mr. **Nichols**. The concept of the club that you are portraying is a long way from a beer joint with a jukebox going, and maybe a band playing. It is an entirely different world that you are aiming at here. I am very much interested in it.

Let me ask one more question Mr. Chairman, if my time hasn't expired.

Mr. **Daniel**. Proceed.

Mr. **Nichols**. Please explain this Fort Carson facility where you are asking $4 million for an enclosed outdoor recreation center. Isn't this really a checkout center for equipment, skis and so forth?

This project contains an indoor firing range. Now, I enjoy firing rifles, shotguns, you name it. But we don't have any other such facility in the Army, the Navy, or the Air Force. About half of the floor space is for offices. How can the Army justify an expenditure of $4 million for this type of facility?

General JOYCE. As I said, Mr. Nichols, we did a very extensive survey a couple of years ago, the most extensive one in 25 years. What people told us that they wanted the most at the CONUS installations was outdoor recreation opportunities.

At Fort Carson, they have a very big outdoor recreation program and it includes hunting and fishing. Now, you have a lot of people that come into the Army that have never been hunting or fishing and don't know the first thing about either sport fishing or sport hunting.

There is no other indoor range anywhere in the vicinity. There's one downtown that's very expensive. Every base is a little bit different, from all the others, usually due to location. Now, at Fort Carson, hunting and fishing are big activities. So most of the features that have been added to that building are aimed at bringing in people, training for example, in how to tie flies, you know, the whole range of things that maybe kids from the city have never seen, in order to get them launched in outdoor recreation.

You have to make a judgment on whether that is worth it or not. The local commander has, and my own judgment is that you may well be better off building something like this than just building another brandnew service club which wouldn't return you the benefits in terms of fitness and healthy outdoor recreation that this is intended to do.

Mr. NICHOLS. Thank you, Mr. Chairman. I apologize for taking so much time.

Mr. DANIEL. Mr. Martin.

Mr. MARTIN. Mr. Chairman, I have no further questions.

Mr. DANIEL. I have one other question, General, to the two of you. General Tice had a consultant review MWR construction in 1983. The study found, among other things, that facilities were too large and too abundant; facilities were being built by personnel with questionable planning skills; fees being charged were much lower than those in the civilian sector; and guidance on fees and charges was unclear and conflicting. During the last few years, the panel has found that these problems continue to exist.

What sort of attention is being given to this now?

General JOYCE. I would like to respond first, Mr. Daniel, because in this regard I feel that for the last several years I have sort of been your agent.

Mr. DANIEL. Yes.

General JOYCE. Because I proceeded from the record of prior hearings. In the Army we have put a very heavy thrust on making programs pay their own way. As a matter of fact, we don't have an operations budget process so the commands have to be self-sufficient in order for us to use the AAFES dividends for capital improvement. That in itself necessitated an examination of price structures. And although the way the Army operates you can't, from Washington, dictate what prices should be. The Army has agreed to and embraced a set of pricing and performance guidelines that we put together a couple of years ago.

Now, we never said the cost of a line of bowling needs to be a certain amount. What we did was survey around the world and found out how much various people were charging for various services. We published these data and they were called guides.

We rationalized these rates as being in the realm of what the committee had shown what it was willing to tolerate via the exchange system and the operation of class VI stores, because the record is very clear this panel has said that the pricing structure within the exchange system which is roughly 20 percent below civilian prices, appears to be fair. And in the case of class VI stores where we must be within 10 percent of prevailing local price, that appears to be fair. So we have shot for those goals.

And although there may be some places where you can find prices that I think are undeniably below what they ought to be, I think there are a lot fewer than there used to be because they have been forced into it in a couple of different ways. They have been forced to become self-sufficient. They have been given guidelines and now they can be measured in the major command against all the other installations that operate there.

What I hear frequently from the people at the installation level, is that there have been pressures to raise prices, but I don't think much of that has really occurred. We sort of tried to walk the line between what I know the committee wants, and what they consider too low, and what commanders will tolerate in the face of local pressures to hold the prices down to levels that are unrealistic.

I think we have done a pretty good job in that regard in the last few years.

Mr. DANIEL. The Chair is familiar with some of the things that have been done. I just wanted you to get that on the record.

Any other questions? Mr. Cofer.

Mr. COFER. Mr. Chairman, I have one question that was referred to the committee by Mr. Dellums, chairman of the Military Construction subcommittee.

The Army went before the Milcon Subommittee to get approval from that committee to lease some warehouse space for the commissary in Yongsan, Korea. Mr. Dellums has referred that action to us in light of the Army's project before the committee to build a new commissary. Mr. Dellums wanted to make sure that this committee took action on the commissary prior to his committee taking action on the Army's request to lease civilian space.

General Hayes, the MilCon Subcommittee has some problem with leasing a warehouse for over $300 million, which was the original request of the Army to Mr. Dellums' subcommittee. Since that time, I think the Army has taken some initiatives.

Could you update the panel on this project, and the critical need that you have?

General HAYES. The request that was referred to you was for the lease of 75,000 square feet of refrigerated and nonrefrigerated storage over a 3-year period, as you said, for roughly $3.8 million.

Subsequent to the submission of that title X request, 8th Army did locate a maintenance facility that was made available to us that would satisfy part of the nonperishable storage requirement that we are faced with. By providing that space to us, the requirement is now reduced to around 43,900 square feet for leasing at an annual cost of $751,000, or a 3-year cost of $2,253,600. That is a savings over the original request that you are looking at, over the 3-year period, of $1.6 million.

The critical need for this leased space is that the new commissary will be constructed onsite where our permanent warehouse is that will be incorporated into that project as well as several temporary buildings that are in Conex containers and walk-in refrigerator boxes that are supporting our store.

Those all have to be demolished and moved aside in order to allow construction to proceed for the new store. We cannot start on the new store until we get the lease of the facility that we have requested so that we can vacate the temporary structures that have to be torn down in order to free up the site.

Mr. **Cofer**. That's all I have, Mr. Chairman.

Mr. **Daniel**. Mr. Holton.

Mr. **Holton**. General Joyce, there has been a lot of confusion about what exactly it is you want to build with these million dollar class VI stores and consolidated warehouses.

Can you briefly tell us what it is that you are putting into these facilities? Why they cost so much? And then provide a detailed explantion for the record.

General **Joyce**. Yes, I will submit that information for the record, Mr. Holton see attached copy of insert previously provided for the record. But generally, we are observing the ceiling of about $850,000 on these things, which is a lot of money, but it is hard to build any kind of a structure on the cheap these days. Only a minor portion of the model that we are working on is a sales area; the rest of it consists of modern warehouse space to use as a central point for all of the MWR facilities that we have.

[The following information was received for the record:]

Question. Your statement mentions Class VI store projects. One package store project submitted for this year has an estimated cost of a million and one half dollars. Please explain the concept behind these combined facilities and what percent of the cost and size is for warehouse vs package store. Please provide floor plans for the record to show what we are building into these Class VI Stores. Please provide to the panel the analyses reflecting these savings at Ft. Rucker.

General **Joyce**. We believe the Rucker Package Beverage Store is indeed a good initiative and a concept we would like to perpetuate. We have discussed this concept with your staff and provided them with periodic updates on the financial results there. Let me summarize the financial results for the first full year of operations at Rucker, 1 March 1984 to 28 February 1985:

Cost savings	$58,830
Increased income	63,473
Total increase	122,303

At a cost of about $900,000, this increase will result in a payback of 7.4 years. The facility is a pre-engineered metal building of about 15,000 square feet. A little over a third of the area is retail sales area, with the remaining as warehouse and support. Less than half of the total cost can be attributed to the sales store. This is pretty representative of the other consolidated warehouse/package stores in our program.

The basic concept is that the warehouse will serve as a consolidated warehouse for all MWR activities.

General **Joyce**. Right now, since the panel has given us the go ahead to proceed with the MWR single fund at the installation level, there are a lot of potential economies in consolidation of operations of one kind or another to support the NAF program.

I think if you will look at the layout of the breakout of space that we are programming into these facilities, and I will submit that for the record, you get some idea of the long rouge economies we have in mind.

But, again, we are replacing old facilities. We haven't really gone out and built any brand-new class VI stores where no others existed. In general, for the last couple of years, what we have been doing is replacing old buildings; we have not been adding new ones.

[The following information was received for the record:]

Payback/ROI on facility cost—1 Mar 84—28 Feb 85

Total cost—design, equipment and construction	$909,025
Annual increase in net income	63,473
Annual cost savings	58,830
Total of net income/savings	122,303
Payback period in years	7.4

Fort Rucker package beverage store and consolidated warehouse increased net income—1 Mar 84—28 Feb 85

PBS net income—comparison with previous year	$52,773
Ice sales—new machine and bagger	10,700
Total increase—in net income	63,473

IMPROVED OPERATION AND CUSTOMER SERVICE

Improved stockage—line items up from 600 to 840.
New product lines—low/nonalcoholic beverages.
Broader support—for all MWR, not just clubs.
Increased productivity—forklift speeds off/loading and storage efficiency.
Customer conveniences—air conditioning, better product presentation, wide aisles with carts.

Cost savings from efficiencies—1 Mar 84-28 Feb 85

Personnel—reduced one warehouseman	$15,600
Bulk purchase of produce—large cooler space	12,480
Cash register/scanners—cut human error	30,000
Inventory reductions—common item consolidation	7,500
Total cost savings	58,830

FORT RUCKER PACKAGE BEVERAGE STORE AND CONSOLIDATED MWR WAREHOUSE

FY 83 NAFCP (design, equip, & construct) $909,025
A case study in high payback/ROI.
Based on actual increased proceeds and cost savings—1 Mar 84 to 28 Feb 85.
Additional benefits of customer service and operational efficiency.

Mr. **HOLTON**. Thank you, Mr. Chairman.

Mr. **DANIEL**. Mr. Waters.

Mr. **WATERS**. Thank you, Mr. Chairman.

I just would like to take this opportunity to highlight one point the panel tried to make during our discussion when General Chavarrie was here—that has to do with the guidance that comes down from DOD. I think you explained it well, General, a little earlier, when you said it was unclear as to whether we can or cannot add a physical fitness facility to a club. What the panel and the staff members find as we review some of these projects is that the DOD directives are being interpreted differently by the various services. I think this is an area we may want to follow up on later.

Thank you, Mr. Chairman.

Mr. DANIEL. We have a statement from the Marine Corps that will be entered for the record.

PREPARED STATEMENT OF COL. W.R. IRWIN, U.S. MARINE CORPS, HEAD, MARINE CORPS EXCHANGE SERVICE BRANCH, FACILITIES AND SERVICES DIVISION, OFFICE OF THE DEPUTY CHIEF OF STAFF (INSTALLATIONS AND LOGISTICS)

Mr. Chairman and members of the Morale, Welfare and Recreation Panel: I am Colonel W.R. Irwin, Head of the Marine Corps Exchange Service Branch, Facilities and Services Division, Installations and Logistics Department, Headquarters Marine Corps. I am pleased to have the opportunity to appear before you to present the Marine Corps Nonappropriated Fund Construction Programs. I am accompanied by Colonel P.F. Angle, Director of the Morale Support Division, Manpower Department, Headquarters, Marine Corps.

Your memorandum of September 4, 1985 expressed an interest in certain items regarding the Marine Corps programs. We appreciate your supportive interest in these programs. All Marines and their dependents have benefitted through the acquisition of new facilities.

Our NAF programs (clubs, recreation, exchange and commissary) are developed in accordance with the shore facilities planning and programming system. The requirements are identified by the installation commanders, and are expressed as individual projects. These projects collectively become the five year plan.

Priorities for funding products are assigned by HQMC and are derived from mission requirements, quality of life features, needs, location, troop utilization and age of existing facilities. Additionally, prioritization of recreational and clubs projects is based on DOD directives and commandant of the Marine Corps guidance. Payback, or economic analysis, is a significant factor in the selection of revenue producing projects. The Assistant Commandant of the Marine Corps selects the NAF projects for funding based on each of the priorities established, fund availability and the recommendations of the Marine Corps NAF Board. Commissary projects are slightly different in that they are approved by the Deputy Chief of Staff for Installations and Logistics.

I will next discuss each of our NAF programs separately starting with our commissionary program.

We have constructed 7 commissary stores in the past 10 years and we plan to fund a replacement store at Twenty-Nine Palms, CA in FY 1986 at an estimated cost of $3.2 million. The Government of Japan is funding a new commissary at Iwakuni. Our 5 year plan (FY 85–89) includes an east coast distribution center and renovations at Quantico, VA, Camp Lejeune, NC and Parris Island, SC. The construction funds for our commissary projects are generated from surcharges. Although there are positive aspects to the proposal to consolidate surcharge funds, a more definitive implementing plan is required for proper consideration.

Construction of exchange facilities within the Marine Corps has been centrally managed since 1973. During this 12 year period, $58 million worth of facilities has been completed with an additional $27 million under construction. Over these 12 years, an average of $7.1 million of nonappropriated funds has been spent on exchange construction per year. We anticipate spending an average of $7.6 million per year over the next 5 years. Although we have a stated backlog of $15.4 million, we feel that current and future exchange facility needs will be met under the existing program with no detrimental delays. The three criteria used for prioritizing exchange projects are: patron need, return on investment, and command priority.

Temporary lodging facilities (TLF) continue to be a high priority requirement for us as they provide an affordable place to stay during the transition period of personnel transferring between bases. We have TFL's in operation at 12 installations. Construction is underway for more rooms at lodges for Camp Pendleton, CA (64 RMS; $3.4 million; completion 10/85) and for El Toro, CA (24 RMS; $1.4 million; completion 6/86). Although we plan no TFL projects in FY 86, we are evaluating requirements for lodges at Beaufort, SC, San Diego, CA, Yuma, AZ, and Quantico, VA.

The NAF recreation and club construction programs are providing needed facilities to promote and maintain the mental and physical well-being of our personnel. The five year recreation construction program (FY 85–89) consists of 16 projects at an estimated cost of $13.2 million. The five year club construction program consists of 32 projects at an estimated cost of $32.7 million. Both the recreation and club construction programs will be updated and reviewed by the NAF board this quarter. We anticipate funding recreation and club construction at the combined rate of approximately $10 million annually for the next few fiscal years.

You indicated concern on the payback or economic justification for the SNCO Club at Tustin, CA. Although we have this club in the current program, construction authorization has been withheld while we evaluate the feasibility of constructing a modular club which would service our SNCO's and junior enlisted. This is one initiative in a program designed to reduce financial losers and still provide needed MWR activities.

We use patron surveys in evaluating the club and recreation construction requirements. A comprehensive survey was conducted in 1981 and more recently in the summer of this year to determine our firm long range requirements. We are in the process of analyzing the command responses, collating data, and preparing a Marine Corps summary of the survey results. We provided an executive summary of the 1981 patron attitude survey to this panel and the partial results of the 1985 survey have been provided separately.

Your memorandum requested information on non-interest bearing loans for construction of clubs. The Marine Corps does not normally provide loans for any NAF construction and we now centrally fund club and recreation construction through the Marine Corps morale support fund. This policy is consistent with previous recommendations by this committee.

Mr. Chairman, in summary, I would emphasize that the Marine Corps NAF construction programs reflect the most urgent morale, welfare and recreational needs of the Marine Corps.

Our program is the result of a careful, well-reasoned, and thorough decision process based on our best judgment and sound economic analysis. The projects included represent the most cost effective method of achieving our requirement. Permit me to emphasize again our appreciation for the supportive interest of this panel.

Gentlemen this concludes my statement. We welcome any questions that you might have.

[The following questions were submitted to the witnesses to be answered for the record:]

Marine Corps NAF Construction Program

Question: The Marines have separate SNCO and Enlisted clubs. The Enlisted clubs are usually profitable while the SNCO clubs are not.

The Marines recently decided to fiscally -- but not physically -- consolidate SNCO and Enlisted clubs.

What is the effect of this fiscal consolidation? Is this a form of subsidizing the SNCO's by the enlisted personnel?

Answer: The effect of fiscal consolidation is that it will allow for a long term construction program which calls for modular club facilities wherever feasible. This will eliminate duplicated administrative club management functions. Where separate SNCO and Enlisted facilities are not cost-effective, a modular club concept will be used; e.g., a combined SNCO and Enlisted facility will be constructed. A modular facility with a common galley and other common or shared areas would be ideal, but physical consolidation is not practical in all situations. We will continue to maintain the integrity of our rank structure by keeping separate areas where Marines can live and relax with their peers. In light of this plan, we do not consider this a subsidization of the SNCO's by the enlisted.

Question: The Marines have a formal system to prioritize projects.

Please explain the system and how projects are analyzed and prioritized?

Answer: For Clubs and Military Recreation, we use a point system based on DoD guidance to determine the overall priority of each valid project. Points are given for: need (Indispensable MWR Activities, Essential MWR Activities, or Desirable Activities); Location (Overseas, Nonurbanized CONUS, or Urbanized CONUS); Requirements versus On-hand facilities (Straight percentage); and Patron Preference. The point totals are weighted to determine order of priority. We then perform a cash flow analysis to determine availability of funds for construction over the next five-year period. This establishes our basic program which is briefed to a Nonappropriated Fund Board (five members of flag rank). If there are any factors, which should influence a particular project, not covered in the point system, it is briefed as not being recommended for the program. As an example, Marine Corps Air Station, Iwakuni requested a project to relocate a bowling facility to a more desirable location on the base. Because the project is overseas and rates high on patron's preference, it received a high enough priority to be within funding capability; however, this project was briefed out of the program because the existing facility has at least ten years of useful life.

Marine Corps Exchange construction requirements originate at the command level. Each command is required to submit a five year-plan to HQMC, and the plan is updated annually by March 31st. All project requests are reviewed at HQMC to ensure they are within the DoD authorized space criteria and the command-prepared Basic Facilities Requirement List. These requests are evaluated on three criteria:

- Need (0 - 5 points). During the year all commands requesting projects are visited and projects are ranked on a need basis.
- Length of time to payback the investment (0-10 points). Ten points for payback of two years or less, down to 1 point for 25 years or more.
- Command priority (0 - 5 points). The commander's first priority receives 5 points; second priority 4 points, on down to 1 point for the 5th priority.

The prioritization process results in projects that are recommended for funding in the current budget year, projects recommended for approval and expenditure of A&E costs in current budget year and projects recommended for approval for planning purposes only in the out years. The construction program is then presented to the Nonappropriated Fund Board for review and recommendations to the Assistant Commandant who makes the final decision.

Question: The Marines conducted a club patron attitude survey this year. While all the results have not been tabulated, 7 commands submitted their initial analysis. It showed that 30% to 50% of the Marines didn't use their clubs. The non-use response was even higher for spouses.

These are very disturbing statistics.

What do you see as the future of the club system? How are you going to factor these results into future club construction plans?

Should all club projects be deferred until a long-range action plan is developed?

Answer: In regard to the future of the club system, the use of clubs by 50-70% of Marines is considered excellent. Very few civilian establishments can claim this degree of participation by their target population. Because of a recent policy change, clubs now have exclusive prerogative over full service dining, catering, and on premise alcohol sales. The result is reduced on base competition, and sales should increase. We are also marketing our programs more professionally, improving the quality and variety of our training, and stabilizing personnel assignments; all of which should enhance operations. Regardless of these factors, our efforts are to economize construction by building to need rather than optimum size.

Club projects should not be deferred as we do, in fact, have a five-year program. In effect, we have had a self-imposed two-year moratorium on club construction while we assessed the impact of the 21-year-old drinking laws and the effect of the programs regarding responsible use of alcohol. A reassessment of priorities is being conducted on FY86 through FY90 projects as part of the long-range construction plan. Delay in club construction would unnecessarily penalize our Marines and their dependents.

Question: What is the estimated amount of slot machine revenues in 1985?

How are your slot machine revenues being allocated? What are they being used for?

Answer: Slot machine revenues are estimated at $6.3 million. Headquarters assesses 40 percent of revenue, and the local club retains 60 percent. The Headquarters assessment is used for facility construction expenses. The local command uses its share for capital improvements and operating expenses.

Question: Provide details on your TLF program including: Number of locations, rooms, facility age, average room rate, target market, use of APF, and future locations.

Answer:

TLF INFORMATION

COMMAND	# OF ROOMS	YEAR BUILT	ROOM RATE
Quantico	73	1943	$15-30
Parris Island	30	1982	$10-24
Camp Lejeune	90	1973	$18
Cherry Point	28	1945	$14-17
Camp Pendleton	40	1942/43	$12-25
Barstow	4	1946	$ 8-22
El Toro	22	1944	$11
Yuma	13	1957	$15-18
Kaneohe Bay	24	1983	$20
Iwakuni	24	1983	$15
Butler			
Kuwae Lodge	158	1968	$15
Courtney	16	1981	$23
Hansen	18	1969	$ 9
Twentynine Palms	24	1985	$14-31

- The primary target market for all TLF's is Permanent Change of Station families.
- The following locations have TLF's planned or under construction.

UNDER CONSTRUCTION

COMMAND	# OF ROOMS	EST. COMPLETION
Camp Pendleton	64	February 1986
El Toro	24	August 1986

REQUESTED BY COMMAND AND PENDING VALIDATION

COMMAND	# OF ROOMS
Beaufort	46
MCDEC	72
San Diego	14,042 SF
Yuma	26

Appropriated Fund support for TLF's is authorized for executive control and command supervising billets, general building maintenance, office supplies, common support services, and communications support. Actual support is a command prerogative.

Question: The Marines conducted a recreation Patron Attitude Survey several years ago. It had one very interesting statistic -- 65% of all respondents desire to leave the base after hours, especially for recreation.

What does this tell you about the need for recreation programs and facilities on-base? How do you factor this into facility planning and sizing?

Answer: The Patron Attitude Survey which indicated 65% of all respondents had a desire to leave the base after hours was weighted towards the young enlisted personnel. The demographic breakout was 73% for privates and lance corporals, 70% for corporals through sergeants, 47% for staff noncommissioned officers, and 45% for officers. These figures are not so unusual when you recognize that most people, military or civilian, like a change in life style during their leisure time. The higher figures relating to the young enlisted Marines are attributed to their short tenure in the Marine Corps and their transition from civilian life to a military environment.

Another important fact that must be recognized is there is a difference between an individual's desires and his actually doing something. Usage figures for this same survey indicate the two subgroups having the highest desire to leave the base were also the highest users for a majority of on base recreational facilities.

When we prioritize facility requirements, more emphasis is put on past historical information than on desires.

Question: You are requesting approval for handball courts at Camp Fuji, Japan, and several other projects in Okinawa.

Are these projects eligible for Japan Facility Improvement Plan? If not, why not?

Answer: The handball courts project at Camp Fuji is not eligible for JFIP because of political constraints. JFIP projects require building permits from the local mayor, and there is considerable opposition because nearby residents want their land returned for commercial development (tourism). Also, errant practice rounds from the training area recently hit a small village.

None of the projects listed for construction on Okinawa are currently eligible for JFIP funding. CINCPAC guidance deletes income-producing NAF projects in favor of operational (appropriated) facilities projects. This policy applies except where the project is in direct support of an operational (mission) change or for the exclusive use of a new housing area. Since these projects are neither directly attributable to a mission change nor exclusive in support of a new housing area, they must be funded through NAF.

Question: Why aren't interest bearing loans used to fund "profit generating" projects?

Answer: The Marine Corps Exchange Central Construction Fund (CCF) program was established in 1973. The program generates approximately $7.2 million annually. The funds generated to date have proved adequate to fund all urgently needed exchange construction projects. Further, with the long range planning and orderly renovation and replacement program, it is anticipated that the CCF will be adequate to meet future exchange construction requirements.

In 1982, the Marine Corps Club and Recreation System discontinued using loans as a method of financing major construction projects. We found that the ability to repay loans became the primary justification for facility construction rather than demonstrated need. In practice, non-interest bearing loans required lengthy repayment terms, and many were eventually converted to grants. We do not see interest bearing loans contributing to construction of needed facilities. We may consider this option due to financial constraints. Traditionally, we have resisted additional taxing of profits.

Question: The panel has visited a number of installations and found the MWR fees and charges unrealistically low when compared to the civilian market. In some cases, the military facilities fees are 50% to 75% below similar civilian facilities.

Do the Marines have guidelines established for setting MWR fees and charges?

Are there specific goals for revenue producing activities?

Answer: The Marine Corps policy on user fees is they are to be established at the command level. Management must review available resources, appropriated and nonappropriated, and then make recommendations to the commander on user fee levels. Fees are implemented to ensure program and budget requirement are met, and not that they have to be established within certain percentage of off base commercial activities.

With the exception of golf courses and swimming pools, very few municipalities operate recreation programs like the military services. Community leaders do not have to be concerned like the military commander with the citizen's mental predisposition to work requirements. In the civilian community the majority of recreational activities are commercial activities and must make a profit. There is little direct relationship between a community government and the enhancement of the individual's quality of life through recreational pursuits.

On the other hand, a commanding officer has the dual responsibility of mission requirements and the quality of life of the military community. Recreation programs are implemented to support the Marines' well-being, morale, and ability to meet mission requirements, not to generate a profit. User fees, where required, are established at an affordable level.

We anticipate that in the future, specific recreation activities, fees, and charges will have to be within 70-80% of similar private sector fees and charges.

Question: The panel has found a number of "revenue producing" activities that do not pay their utilities. For example, some bowling centers are using appropriated funds rather than NAF to pay utilities.

What are your guidelines for paying utilities in "revenue producing" activities?

Answer: DoD Dir 1015.6 prescribes that CONUS Marine Corps exchanges shall pay for utilities. This is being done. Marine Corps exchanges outside of CONUS may receive their utilities through the use of appropriated fund, if available.

The reimbursement for utilities by recreational activities is governed by DoD and Secretary of the Navy directives. Not all bowling centers are required to pay for utilities. This is predicated on proximity to urbanized areas as defined by the Census Bureau or a center having six lanes or less. Commanders have this information available to them and have the responsibility to seek reimbursement.

Question: The Marines have requested approval of a $2 million exchange warehouse in San Diego. The Navy has just finished building a very large warehouse in San Diego. Was your project coordinated with the Navy to see if a joint facility was possible?

Answer: No. We did not coordinate with Navy in this particular instance. However, recently, the Armed Forces Exchange Coordinating Committee conducted an extensive study of the feasibility of increased "joint" procurement. The Defense Department Logistics Analysis Systems Office conducted a study of Military Exchange Distribution Systems. Both studies concluded there would be no savings from significantly increasing joint procurement practices or in the "joining" of current distribution systems. Marine Corps exchanges located close to Navy exchanges deliberately try to stock a different mix of merchandise, thus giving the patrons in the area increased selection. This technique tends to have the exchanges complement each other rather than compete and allows the individual exchanges the flexibility to add or drop lines of merchandise rapidly and/or take the maximum advantage of manufacturers' specials and promotions. Drawing merchandise from the same warehouse would not generally support such a concept.

Question: The Marine Corps' plans contain a $20 million exchange in Iwakuni, Japan within the next few years. Please explain how the size of that exchange was determined and the alternatives you are considering to reduce the cost.

Answer: The size of the proposed Marine Corps exchange at Iwakuni is 77,700 square feet. Based on the size and location of the command, this size is within the space criteria prescribed by the applicable Department of Defense Directive. The initial cost estimate of $20 million has been revised downward and is now $17 million. The decrease is due to a reduction in the Area Cost Factor from 1.6 to 1.1. Additional cost savings factors will be examined during the development of the detailed plans and specifications, including interior decor.

The project is eligible for and is included in the 1986 JFIP. The project is also programmed for NAF in case it falls from JFIP. The JFIP will be acted upon in the April 1986 time frame. If the exchange facility is funded through the JFIP, U. S. funding will still be required for interior finishing and collateral equipment.

Question: The Marine Corps Club System has problems, especially in the staff NCO and Officer Clubs. Please explain the current status of the Marine Corps Club System and what you see as its future. What are your plans to stop losses that are occurring in the Officer and NCO Clubs.

Answer: We feel that the future of the Marine Corps Club System is bright. Civilian establishments are also feeling the impact of local efforts to promote responsible drinking, Dram Act laws, and what appears to be a changing life style. The successful establishments are coping by responding to their patron needs and wants. Our clubs can offer the Marine an environment that is more convenient, safer, and less costly than off base competition. To improve our programs and increase participation, we are striving to enhance our food programs by offering quality. We are emphasizing training and the marketing of our product to make our patrons aware of what we have to offer. In addition to quality food service, by offering innovative programs, quality entertainment, and using better management techniques, we expect to eliminate losses.

We have a professional staff which conducts technical assistance visits to commands with losing clubs. If the club fails to show significant improvement after the technical assistance visit, our intention is that the facility will be closed at the direction of the Commandant of the Marine Corps within one year of identification of the branch not being self-sustaining.

Question: The Marine Corps requested a staff NCO club at Marine Corps Air Station Tustin, California. It is our understanding that this project is being revised. Please explain the current plans for the Tustin club project.

Answer: The Marine Corps Air Station (MCAS) at Tustin, California, rates a 15,120 square foot SNCO Club based on the Facilities Planning Criteria Manual. They currently have an 8,113 facility, constructed in 1943, which is in need of replacement. In April, 1983, we authorized the design of a replacement facility with a scope of 6,300 square feet at an estimated total cost of $1,200,000. The project was to begin construction during fiscal year 1986, and the design has been completed. During the design review process, it appeared that the facility was overscoped even though the size is less than half of what they rate. It is hard to design a full service club less than 6,300 square feet in size. Usage data indicates the proposed facility will possibly not be fully utilized. While some loss of business can be attributed to the poor appearance of the existing facility, a new facility will not guarantee additional patronage.

The SNCO Club project has been put on hold pending review of their situation.

We are also evaluating a requirement for an enlisted club. The existing Enlisted Club has very limited food service and is in need of renovation. The obvious solution is to add a wing to the existing enlisted Club during the renovation and expand the kitchen area to a full service galley. This would enhance food service to both groups of patrons which is one of our primary objectives. It would reduce the overhead costs as opposed to operating two separate facilities. Of primary concern is whether or not the site of the existing Enlisted Club can physically accommodate expansion in the area adjacent to the kitchen.

MCAS Tustin is one of the commands which we anticipate will suffer the greatest impact of the 21-year-old drinking laws, responsible use of alcohol programs, and off base competition. The command has recently requested a renovation project for the Enlisted Club.

Another of our long range goals is to replace existing singular facilities with modular clubs when the opportunity presents itself. Since neither club is doing well financially, we believe a modular club would be an ideal solution at this location if it proves to be physically practical.

Question: A number of projects approved in Fiscal Year 1985 are being resubmitted this year. Please explain the reasons for the slippage in the Fiscal Year 1985 program and what the Marine Corps is doing to ensure that the 1986 program will not have similar problems.

What is your evaluation of the performance of NAVFAC in completing your projects?

Answer: The primary reasons for slippage were delays resulting from acceptance of new definitive layouts and from the refinement of project requirements.

To ensure that slippages do not occur in the approved Fiscal Year 1986 Program, we will reduce future design changes to an absolute minimum and work closely with NAVFAC for a more timely execution of construction contracts.

We are satisfied with the performance of NAVFAC in completing our MWR projects.

Question: Your testimony mentions using O&M funds to support MWR facilities including revenue producing activities like bowling alleys and golf courses. Is this support allowed for functions directly related to the revenue producing activity -- i.e. resurfacing alleys in a bowling center or maintaining tees/greens on a golf course? If so, what is the rationale for such support?

Answer: Current DoD and SECNAV Directives allow using O&M funds in specific areas in revenue producing activities like the bowling center and golf course. The decision to use O&M funds is a command decision and is based on available resources. The rationale in the commander's decision-making process is related to recreational activities supporting mission requirements.

Question: The initiative to build fast food facilities will generate millions of dollars each year at the installation level.

Have you established any ground rules for how these monies can be spent? Should there be limits set so that these funds are used for construction or capital purchases and not to subsidize operations?

Who will monitor how these monies are being used?

Answer: Yes. The rules provide that profits from an exchange fast food selling activity will be treated the same as all other exchange profit. The [illegible] further provide that no separate selling activi[illegible] can be operated at a planned loss. Therefore, [illegible] potential for one selling activity to subsidize another is eliminated. Marine Corps exchange profits including those from fast food operations are distributed at year end [illegible]

[illegible] to command's local recreation funds not [illegible] exceed [illegible] per capita [illegible]. Monies in exce[illegible] [illegible] are distributed equally to the local re[illegible] creation fund and Marine Corps Morale Support Fund [illegible] headquarters [illegible] Marine [illegible]

[illegible] to the Marine Corps Morale Support [illegible]

The balance of the exchange up to full capi[illegible] [illegible]

Monies in excess of full capitalization requirements are distributed to the Marine Corps Morale Support [illegible] [illegible] of the Marine Corps exchange systems pr[illegible] was distributed to the Marine Corps recreation progr[illegible] [illegible] of all exchange monies is monitored by comma[illegible] as well as internal and external audit[illegible]

The establishment of contract fast food facilities on Marine Corps installations is a function [illegible] Marine Corps exchange [illegible]. The profits genera[illegible] from these contracts become a part of the overall [illegible] exchange profit distribution. This means that [illegible] [illegible] to the local recreation [illegible]

The installation recreation fund uses this [illegible] to support the commanding officer's overall recreati[illegible] program requirements and for minor construction [illegible]

The installation commander is responsib[illegible] approving the recreation fund budget and establi[illegible] [illegible] of expenditures through the budget proc[illegible]

[illegible]: That statement describes the [illegible] [illegible] are collected and distribute[illegible] [illegible] process that leaves [illegible] of the responsibility of the base and major comm[illegible]

[illegible] in reviewing projects [illegible] [illegible] both the installation [illegible] major commands [illegible] as [illegible] determining [illegible] we [illegible] be building facili[illegible] that the base commander [illegible]

[illegible] these organizations are [illegible] an [illegible] building projects [illegible] considered [illegible]

[illegible] the [illegible] commands [illegible] documentation [illegible] the needs and requireme[illegible] [illegible] to support the particular [illegible] [illegible] however [illegible] very comprehensive review [illegible] the [illegible] [illegible] building [illegible] what equipment he has in the facility in many cases). We know what facilities he rates in his Basic Facilities Requirements List (based on the Facilities Planning Criteria Manual). We know what the troops at his command have indicated they want (via the Patron Attitude Surveys) and, conversely, what they don't want. The program sponsors have an in-depth knowledge of the program situation and what facilities the commander needs to support his program. The program sponsors have the primary responsibility to review each project and make recommendations to the Nonappropriated Fund Board. Through this screening process, we are able to filter out what the troops do not want or need.

We send an annual guidance letter to each command calling for submissions of MWR projects. When we identify a particular project we believe would be highly desirable to the troops, we address it in the guidance letter. While we have not directed a commander to submit a specific project, we suggest that a particular project would be "favorably received" for construction during a certain year. We intend to increase the use of this vehicle in future guidance letters.

We have tried a more direct "Top Down" approach on a trial basis in the past with very mixed results. Some projects were delayed due to site problems, scope problems, cost overruns, or design deficiencies. In one case, the project was approved for three years, and the command could not provide adequate documentation to get the project technically validated.

We feel that our processes are responsive to the desires of the NAF Board panel, recommendations of the GAO on construction management, and DoD guidance.

Question: What is the Marine position on consolidating commissary surcharge funds for all of the services and then using funds on the most needed project department-wide?

Answer: The consolidation of surcharge funds has merit. This concept, however, requires a more definitive implementing plan for proper consideration by the Marine Corps.

Mr. DANIEL. This will bring to a close this phase of the hearing.

[Whereupon, at 11:45 a.m., the panel proceeded into executive session.]

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